FONTANA UNIFIED SCHOOL DISTRICT

AUDIT REPORT

For the Fiscal Year Ended June 30, 2018

FONTANA UNIFIED SCHOOL DISTRICT
For the Fiscal Year Ended June 30, 2018
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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, 2018, 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 *2017-18 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, 2018, 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.

Jeff Nigro, CPA, CFE | Elizabeth Nigro, CPA | Kevin Brejnak, CPA, CFE | Peter Glenn, CPA | Michael Klein, CPA, CMA, EA

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Emphasis of Matter
As discussed in Note 14 to the financial statements, the net position as of June 30, 2017 has been restated to correct a misstatement. 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, budgetary comparison information, schedule of proportionate share of the net pension liability, schedule of pension contributions, schedule of changes in the District's total OPEB liability and related ratios, and the notes to the required supplementary information 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 77 to 80 and the schedule of expenditures of federal awards on page 81 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 76 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 11, 2018, 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.

Nigro + Nigro, PC.

Murrieta, California
December 11, 2018

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, 2018. 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 $10.4 million, or 9.2%.
- Governmental expenses were about $520.8 million. Revenues were about $531.3 million.
- The District acquired over $12.6 million in new capital assets during the year. These expenditures were incurred primarily from buildings and equipment.
- The District decreased its outstanding long-term debt by $12.3 million. This was primarily due to other postemployment benefits, certificates of participation, and general obligation bond principal payments.
- Grades K-12 average daily attendance (ADA) decreased by 799, or 2.2%.

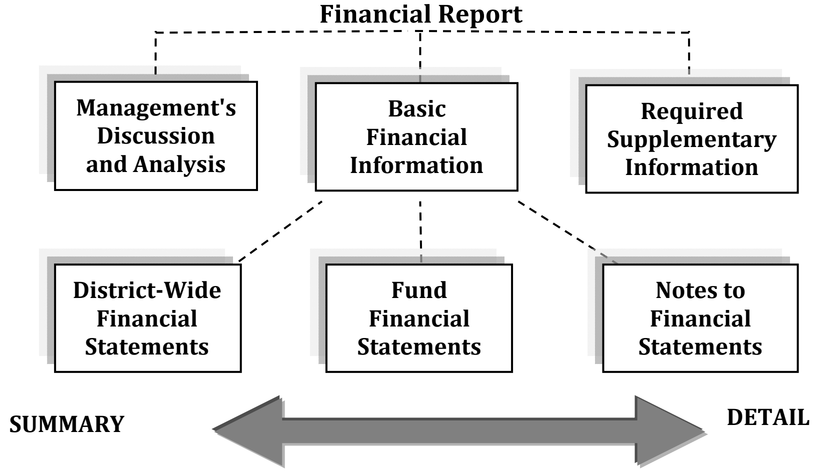
OVERVIEW OF THE FINANCIAL STATEMENTS

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



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
Scope	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
Required financial statements	• Statement of Net Position • Statement of Activities	• Balance Sheet • Statement of Revenues, Expenditures & Changes in Fund Balances	• Statement of Net Position • Statement of Revenues, Expenses, & Changes in Net Position • Statement of Cash Flows	• Statement of Fiduciary Net Position • Statement of Changes in Fiduciary Net Position
Accounting basis and measurement focus	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
Type of asset/liability information	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
Type of inflow/outflow information	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

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.

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, 2018, than it was the year before – increasing 9.2% to $124.5 million (See Table A-1).

Table A-1: Statement of Net Position

	Governmental Activities		Variance Increase
	2018	2017*	(Decrease)
Assets			
Current assets	$ 341,262,464	$ 314,690,396	$ 26,572,068
Capital assets	542,086,165	553,030,509	(10,944,344)
Total assets	883,348,629	867,720,905	15,627,724
Deferred outflows of resources	153,765,916	124,713,985	29,051,931
Liabilities			
Current liabilities	55,844,048	61,895,903	(6,051,855)
Long-term liabilities	389,473,361	401,742,293	(12,268,932)
Net pension liability	451,134,318	394,738,218	56,396,100
Total liabilities	896,451,727	858,376,414	38,075,313
Deferred inflows of resources	16,144,254	19,985,203	(3,840,949)
Net position			
Net investment in capital assets	333,826,732	330,451,040	3,375,692
Restricted	101,926,564	96,503,105	5,423,459
Unrestricted	(311,234,732)	(312,880,872)	1,646,140
Total net position	$ 124,518,564	$ 114,073,273	$ 10,445,291

**As restated*

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (continued)

Changes in net position, governmental activities. The District's total revenues decreased 1.7% to $531.3 million (See Table A-2). The decrease is due primarily to lower revenues from operating grants and services.

The total cost of all programs and services increased 1.4% to $520.8 million. The District's expenses are predominantly related to educating and caring for students, 78.8%. The purely administrative activities of the District accounted for just 4.5% of total costs. A significant contributor to the increase in costs was a combination of instruction related, administrative, and plant services.

Table A-2: Statement of Activities

	Governmental Activities		Variance Increase
	2018	2017	(Decrease)
Revenues			
Program Revenues:			
Charges for services	$ 5,521,861	$ 9,361,290	$ (3,839,429)
Operating grants and contributions	98,782,622	111,045,434	(12,262,812)
Capital grants and contributions	69,798	(2,820,525)	2,890,323
General Revenues:			
Property taxes	54,605,549	44,972,631	9,632,918
Federal and state aid not restricted	362,104,114	366,541,131	(4,437,017)
Other general revenues	10,188,570	11,528,546	(1,339,976)
Total Revenues	531,272,514	540,628,507	(9,355,993)
Expenses			
Instruction-related	349,610,251	348,022,150	1,588,101
Pupil services	60,556,873	60,016,195	540,678
Administration	23,651,131	20,290,032	3,361,099
Plant services	54,554,210	49,853,563	4,700,647
All other activities	32,454,758	35,685,312	(3,230,554)
Total Expenses	520,827,223	513,867,252	6,959,971
Increase (decrease) in net position	$ 10,445,291	$ 26,761,255	$ (16,315,964)
Total net position	$ 124,518,564	$ 114,073,273	$ 10,445,291

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 $281.7 million, which is above last year's ending fund balance of $250.6 million. The primary cause of the increased fund balance is an operating surplus due to receiving additional state and federal revenue.

Table A-3: The District's Fund Balances

	Fund Balances				
	July 1, 2017	Revenues	Expenditures	Other Sources and (Uses)	June 30, 2018
Fund					
General Fund	$ 136,581,102	$ 476,257,722	$ 451,437,869	$ (3,233,906)	$ 158,167,049
Adult Education Fund	304,467	1,772,935	1,778,171	-	299,231
Child Development Fund	997,433	8,901,405	8,521,312	-	1,377,526
Cafeteria Fund	9,908,922	24,927,748	24,916,249	4,264	9,924,685
Deferred Maintenance Fund	820,236	8,672	819,751	-	9,157
Special Reserve Fund (Other Than Capital Outlay)	11,925,981	148,855	-	-	12,074,836
Capital Facilities Fund	18,033,088	3,126,345	540,910	-	20,618,523
County School Facilities Fund	10,448,577	69,798	-	(7,856,672)	2,661,703
Special Reserve Fund (Capital Outlay)	15,585,275	4,011,503	2,588,946	11,086,314	28,094,146
Capital Outlay Fund for Blended Component Units	27,723,468	6,003,721	5,243,190	-	28,483,999
Bond Interest and Redemption Fund	18,229,006	18,115,914	16,363,465	-	19,981,455
	$ 250,557,555	$ 543,344,618	$ 512,209,863	$ -	$ 281,692,310

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 $31.3 million primarily to reflect federal and state budget actions.
- Salaries and benefits costs – increased $8.6 million due to negotiated increases in salaries and benefits.
- Other non-personnel expenses – increased $18.3 million to re-budget carryover funds and revise operational cost estimates.

While the District's final budget for the General Fund anticipated that revenues would exceed expenditures by about $0.6 million, the actual results for the year show that revenues exceeded expenditures by roughly $24.8 million. Actual revenues were $13.3 million less than anticipated, and expenditures were $37.5 million less than budgeted. That amount consists primarily of restricted categorical program dollars that were not spent as of June 30, 2018, that will be carried over into the 2018-19 budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2017-18 the District had invested $12.6 million in new capital assets, related to construction in progress, site improvements, and equipment purchases. (More detailed information about capital assets can be found in Note 6 to the financial statements). Total depreciation expense for the year exceeded $21.7 million.

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

	Governmental Activities		Variance
	2018	2017*	Increase (Decrease)
Land	$ 59,340,012	$ 60,625,302	$ (1,285,290)
Improvement of sites	26,584,800	28,019,762	(1,434,962)
Buildings	427,939,099	434,422,983	(6,483,884)
Equipment	16,915,280	18,675,418	(1,760,138)
Construction in progress	11,306,974	11,287,044	19,930
Total	$ 542,086,165	$ 553,030,509	$ (10,944,344)

**As restated*

Long-Term Debt

At year-end the District had $389.5 million in general obligation bonds, certificates of participation, QZABs, capital leases, and employment benefits – a decrease of 3.1% from last year – 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
	2018	2017*	Increase (Decrease)
General obligation bonds	$ 232,479,950	$ 239,467,601	$ (6,987,651)
Certificates of participation	29,970,113	33,000,281	(3,030,168)
QZABs	1,127,385	1,481,358	(353,973)
Compensated absences	2,330,610	2,139,120	191,490
Capital leases	655,893	834,773	(178,880)
Other postemployment benefits	122,909,410	124,819,160	(1,909,750)
Total	$ 389,473,361	$ 401,742,293	$ (12,268,932)

**As restated*

FACTORS BEARING ON THE DISTRICT'S FUTURE

The 2018-19 State Budget

Final Budget Package Includes $15.9 Billion in Total Reserves
The Legislature passed the final budget package on June 14, 2018. Total reserves in the final budget package are lower than the proposed level in the May Revision, but roughly the same as the level proposed by the Governor in January. The budget package also reflects various choices that shifted spending priorities compared to the Governor's proposal. In particular, the final budget package reduces payments for deferred maintenance by $700 million—relative to the Governor's proposal—freeing up a like amount of funding. Correspondingly, the final budget package reflects higher General Fund spending for homeless grants and the universities, among others. The Governor signed the *2018-19 Budget Act* and 26 other budget related bills on June 27 and June 28, 2018.

Overall Spending
The budget assumed total state spending of $197.2 billion (excluding federal and bond funds), an increase of 7% over revised totals for 2017-18. General Fund spending in the budget package is $138.7 billion—an increase of $11.6 billion, or 9%, over the revised 2017-18 level. Special fund spending increased $1.3 billion, or 2%, over the revised 2017-18 level.

Considerable New Spending on Education
The budget package contains significant increases for every education segment. For elementary and secondary schools, the state surpasses the Local Control Funding Formula target rates set in 2013-14. For early education, the budget contains higher spending for more slots, rate increases, staff training, and facilities.

Proposition 98 Establishes Minimum Spending Level
This minimum spending requirement is 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 student attendance. The state can spend at the minimum guarantee or any level above it. 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 growth is weak relative to changes in per capita personal income. Maintenance factor is paid when General Fund revenue growth is stronger.

Higher Proposition 98 Spending in 2016-17 and 2017-18
From the June 2017 budget plan to the June 2018 budget plan, spending increased $252 million in 2016-17 and $1.1 billion in 2017-18. These upward revisions are attributable mainly to higher General Fund revenue. As part of the 2017-18 increase, the state is making an additional maintenance factor payment of $789 million (on top of a previous $536 million payment). After making the $1.3 billion total payment, the state will have eliminated all remaining maintenance factor for the first time since 2005-06. In both 2016-17 and 2017-18, the state is spending at the calculated minimum guarantee.

2018-19 Spending up Notably Over Revised 2017-18 Level
For 2018-19, total Proposition 98 spending across all segments is $78.4 billion, an increase of $2.8 billion (3.7%) from the revised 2017-18 level. Test 2 is the operative test in 2018-19, with the increase in the guarantee attributable to a 3.67% increase in per capita personal income. Though the administration projects a 0.29% decline in student attendance for 2018-19, the budget makes no downward adjustment to the minimum guarantee. This is because the budget assumes that attendance *increases* the previous year (in 2017-18), thereby triggering a hold harmless provision in the State Constitution that negates any attendance declines over the subsequent two years. The budget sets total Proposition 98 spending in 2018-19 equal to the administration's May Revision estimate of the minimum guarantee.

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

The 2018-19 State Budget (continued)

$67.9 Billion Proposition 98 Spending on K-12 Education in 2018-19
The enacted 2018-19 level is $2.4 billion (3.6%) more than the revised 2017-18 level and $3.2 billion (4.9%) more than the *2017-18 Budget Act* level. The budget increases spending per student by $579 (5.2%) over the *2017-18 Budget Act* level, bringing Proposition 98 spending per student up to $11,645.

Package Includes Mix of Ongoing and One-Time Spending
The budget includes $5.7 billion in Proposition 98 augmentations for K-12 education across the three-year budget period. Of the $5.7 billion, $4 billion (70%) is ongoing and $1.7 billion (30%) is one time. From an accounting perspective, the increase is scored across multiple fiscal years and includes settle-up and some unspent funds from prior years that have been repurposed. In addition to the Proposition 98 increase, the budget includes $594 million in Proposition 51 bond authority for school facility projects and $100 million in non-Proposition 98 funding for kindergarten school facilities.

Fully Implements the Local Control Funding Formula (LCFF) for Schools, Then Further Increases Rates
In the January budget, the Governor proposed fully implementing LCFF and reaching the target funding rates. The final budget reaches and then goes beyond full implementation. Specifically, the budget closes the gap to the target rates and funds the statutory 2.71% cost-of-living adjustment (COLA) to those rates. In addition, the budget provides nearly an extra 1 percentage point increase in the LCFF rates—effectively funding a 3.7% COLA in 2018-19. The administration estimates that the combined ongoing cost of both full implementation and the augmented COLA is $3.7 billion. This augmentation brings total LCFF spending for school districts and charter schools to $61.1 billion, a 6.4% increase over the revised 2017-18 level. School districts and charter schools may use LCFF monies for any educational purpose.

Funds One-Time Discretionary Grants
The largest one-time spending initiative for K-12 education is $1.1 billion that local education agencies (LEAs) may use for any educational purpose. Funding is distributed based on student attendance (an estimated $183 per average daily attendance). If an LEA owes any funding to the federal government according to a 2014 settlement over Medi-Cal billing practices, the State Controller is to deduct this obligation from the LEA's discretionary grant. The budget assumes that these Medi-Cal obligations total $145 million statewide (though the administration believes actual payments likely will come in lower). The remainder of each LEA's discretionary grant will be scored against any outstanding mandate claims. As less than one-third of LEAs have any such claims, it is estimated that only $202 million of the funding provided will count toward the K-12 mandates backlog. It is estimated that the total remaining mandate backlog at the end of 2018-19 will be $668 million.

All of these factors were considered in preparing the Fontana Unified School District budget for the 2018-19 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, 2018

	Total Governmental Activities
ASSETS	
Cash	$ 299,748,577
Investments	24,452,909
Accounts receivable	15,621,422
Inventories	72,911
Prepaid expenses	1,366,645
Non-depreciable assets	70,646,986
Depreciable assets	804,632,177
Less accumulated depreciation	(333,192,998)
Total assets	883,348,629
DEFERRED OUTFLOWS OF RESOURCES	
Deferred amounts on refunding	6,465,648
Deferred outflows from OPEB	220,532
Deferred outflows from pensions	147,079,736
Total deferred outflows of resources	153,765,916
LIABILITIES	
Accounts payable	50,860,075
Unearned revenue	4,983,973
Long-term liabilities:	
Portion due or payable within one year	15,036,389
Portion due or payable after one year	374,436,972
Net pension liability	451,134,318
Total liabilities	896,451,727
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows from pensions	16,144,254
NET POSITION	
Net investment in capital assets	333,826,732
Restricted for:	
Capital projects	51,374,372
Debt service	19,981,455
Educational programs	30,570,737
Unrestricted	(311,234,732)
Total net position	$ 124,518,564

FONTANA UNIFIED SCHOOL DISTRICT
Statement of Activities
For the Fiscal Year Ended June 30, 2018

Functions/Programs	Expenses	Program Revenues Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
Governmental Activities					
Instructional Services:					
Instruction	$ 280,123,199	$ 799,758	$ 47,013,964	$ 69,798	$ (232,239,679)
Instruction-Related Services:					
Supervision of instruction	33,812,627	411,303	12,870,463	-	(20,530,861)
Instructional library, media and technology	5,792,383	-	(344,668)	-	(6,137,051)
School site administration	29,882,042	407,588	257,293	-	(29,217,161)
Pupil Support Services:					
Home-to-school transportation	5,849,867	-	-	-	(5,849,867)
Food services	25,015,796	822,679	22,747,356	-	(1,445,761)
All other pupil services	29,691,210	22,595	4,726,717	-	(24,941,898)
General Administration Services:					
Data processing services	9,916,300	-	6,204,303	-	(3,711,997)
Other general administration	13,734,831	133,011	1,341,385	-	(12,260,435)
Plant services	54,554,210	421,928	1,218	-	(54,131,064)
Ancillary services	57,346	769	(3)	-	(56,580)
Community services	29,449	-	-	-	(29,449)
Enterprise activities	74,176	-	-	-	(74,176)
Interest on long-term debt	10,349,726	-	-	-	(10,349,726)
Other outgo	167,597	2,502,230	3,964,594	-	6,299,227
Depreciation (unallocated)	21,776,464	-	-	-	(21,776,464)
Total Governmental Activities	$ 520,827,223	$ 5,521,861	$ 98,782,622	$ 69,798	(416,452,942)

General Revenues:	
Property taxes	54,605,549
Federal and state aid not restricted to specific purpose	362,104,114
Interest and investment earnings	2,448,655
Miscellaneous	7,633,271
Total general revenues	426,898,233
Change in net position	10,445,291
Net position - July 1, 2017, as originally stated	116,591,959
Adjustments for restatements (Note 14)	(2,518,686)
Net position - July 1, 2017, as restated	114,073,273
Net position - June 30, 2018	$ 124,518,564

FONTANA UNIFIED SCHOOL DISTRICT
Balance Sheet – Governmental Funds
June 30, 2018

	General Fund	Cafeteria Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS				
Cash	$ 203,206,127	$ 8,412,595	$ 80,140,167	$ 291,758,889
Investments	-	-	24,452,909	24,452,909
Accounts receivable	8,024,660	5,299,762	2,252,227	15,576,649
Due from other funds	5,802,745	8,963	5,738	5,817,446
Inventories	-	72,911	-	72,911
Prepaid expenditures	1,366,645	-	-	1,366,645
Total Assets	$ 218,400,177	$ 13,794,231	$ 106,851,041	$ 339,045,449
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	$ 40,231,861	$ 349,089	$ 2,710,281	$ 43,291,231
Due to other funds	3,311,603	3,520,457	2,245,875	9,077,935
Unearned revenue	4,614,828	-	369,145	4,983,973
Total Liabilities	48,158,292	3,869,546	5,325,301	57,353,139
Fund Balances				
Nonspendable	1,466,645	82,901	-	1,549,546
Restricted	19,251,314	9,841,784	101,234,564	130,327,662
Committed	-	-	9,157	9,157
Assigned	34,128,883	-	282,019	34,410,902
Unassigned	115,395,043	-	-	115,395,043
Total Fund Balances	170,241,885	9,924,685	101,525,740	281,692,310
Total Liabilities and Fund Balances	$ 218,400,177	$ 13,794,231	$ 106,851,041	$ 339,045,449

FONTANA UNIFIED SCHOOL DISTRICT

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2018

Total fund balances - governmental funds			$ 281,692,310
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:	875,279,163	
	Accumulated depreciation:	(333,192,998)	
	Net:		542,086,165
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:			6,465,648
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:			(2,002,501)
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	232,479,950	
	Certificates of participation payable	29,970,113	
	QZAB bonds payable	1,127,385	
	Capital lease payable	655,893	
	Compensated absences	2,330,610	
	Other postemployment benefits payable	122,909,410	
	Total		(389,473,361)
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.			(451,134,318)
In governmental funds, deferred outflows and inflows of resources relating to pensions and other post employement benefits (OPEB) 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 and OPEB are reported.			
	Deferred outflows of resources	147,300,268	
	Deferred inflows of resources	(16,144,254)	
	Net:		131,156,014
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:			5,728,607
Total net position - governmental activities			$ 124,518,564

FONTANA UNIFIED SCHOOL DISTRICT

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
For the Fiscal Year Ended June 30, 2018

	General Fund	Cafeteria Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES				
LCFF sources	$ 381,278,355	$ -	$ -	$ 381,278,355
Federal sources	26,020,099	22,550,894	974,616	49,545,609
Other state sources	61,273,336	1,391,492	7,975,517	70,640,345
Other local sources	7,834,787	985,362	33,060,160	41,880,309
Total Revenues	476,406,577	24,927,748	42,010,293	543,344,618
EXPENDITURES				
Current:				
Instruction	273,003,508	-	7,091,094	280,094,602
Instruction-related services:				
Supervision of instruction	32,477,520	-	1,862,630	34,340,150
Instructional library, media and technology	4,198,734	-	-	4,198,734
School site administration	28,575,308	-	449,217	29,024,525
Pupil support services:				
Home-to-school transportation	5,506,391	-	-	5,506,391
Food services	240,008	23,531,724	17,541	23,789,273
All other pupil services	28,713,593	-	263,813	28,977,406
Ancillary services	57,346	-	-	57,346
Community services	29,303	-	-	29,303
General administration services:				
Data processing services	9,447,067	-	-	9,447,067
Other general administration	12,678,449	-	-	12,678,449
Plant services	49,452,122	25,447	1,194,588	50,672,157
Transfers of indirect costs	(1,618,749)	1,144,945	473,804	-
Intergovernmental	167,597	-	-	167,597
Capital outlay	8,330,792	214,133	3,981,048	12,525,973
Debt service:				
Principal	178,880	-	11,789,428	11,968,308
Interest	-	-	8,732,582	8,732,582
Total Expenditures	451,437,869	24,916,249	35,855,745	512,209,863
Excess (Deficiency) of Revenues Over (Under) Expenditures	24,968,708	11,499	6,154,548	31,134,755
OTHER FINANCING SOURCES (USES)				
Interfund transfers in	-	4,264	11,086,314	11,090,578
Interfund transfers out	(3,233,906)	-	(7,856,672)	(11,090,578)
Total Other Financing Sources and Uses	(3,233,906)	4,264	3,229,642	-
Net Change in Fund Balances	21,734,802	15,763	9,384,190	31,134,755
Fund Balances, July 1, 2017	148,507,083	9,908,922	92,141,550	250,557,555
Fund Balances, June 30, 2018	$ 170,241,885	$ 9,924,685	$ 101,525,740	$ 281,692,310

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, 2018

Total net change in fund balances - governmental funds			$ 31,134,755
Amounts reported for governmental activities in the statement of activities are different because:			
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	12,611,191	
	Depreciation expense	(21,776,464)	
	Net:		(9,165,273)
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:			(1,316,361)
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:			11,968,308
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:			(491,555)
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:			(2,902,488)
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:			(219,710)
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:			(191,490)
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:			(23,255,489)
In government funds, OPEB costs are recognized when employer contributions are made in the statement of activities, OPEB costs are recognized on the accrual basis. This year, the difference between accrual-basis and actual employer contributions was:			2,130,282
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:			1,269,460
Change in net position of governmental activities			$ 10,445,291

FONTANA UNIFIED SCHOOL DISTRICT
Statement of Net Position – Proprietary Fund
June 30, 2018

		Governmental Activities
		Internal Service Fund
ASSETS		
Current Assets:		
Cash	$	7,989,688
Accounts receivable		44,773
Due from other funds		3,298,101
Total assets		11,332,562
LIABILITIES		
Estimated liability for open claims and IBNRs		5,341,987
Accounts payable		224,356
Due to other funds		37,612
Total liabilities		5,603,955
NET POSITION		
Restricted	$	5,728,607

FONTANA UNIFIED SCHOOL DISTRICT
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Fund
For the Fiscal Year Ended June 30, 2018

	Governmental Activities Internal Service Fund
OPERATING REVENUES	
Self-insurance premiums	$ 3,298,102
Other local revenues	38,262
Total operating revenues	3,336,364
OPERATING EXPENSES	
Payments for personnel costs	325,296
Payments for materials and supplies	6,170
Payments for claims and other operating expenses	1,836,207
Total operating expenses	2,167,673
OPERATING INCOME (LOSS)	1,168,691
NON-OPERATING REVENUES	
Interest income	100,769
Change in net position	1,269,460
Net position, July 1, 2017	4,459,147
Net position, June 30, 2018	$ 5,728,607

FONTANA UNIFIED SCHOOL DISTRICT
Statement of Cash Flows – Proprietary Fund
For the Fiscal Year Ended June 30, 2018

	Governmental Activities Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Received from in-district premiums	$ 3,175,806
Payments to employees and fringe benefits	(339,558)
Payments to vendors and suppliers	84,807
Payments on insurance claims	(2,079,464)
Other receipts (payments)	40,366
Net cash provided (used) by operating activities	881,957
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment income	90,201
Net increase (decrease) in cash and cash equivalents	972,158
Cash and cash equivalents, July 1, 2017	7,017,530
Cash and cash equivalents, June 30, 2018	$ 7,989,688
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	$ 1,168,691
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	2,104
Due from other funds	(122,296)
Estimated liability for open claims and IBNRs	(243,257)
Accounts payable and accrued liabilities	90,977
Due to other funds	(14,262)
Net cash provided (used) by operating activities	$ 881,957

FONTANA UNIFIED SCHOOL DISTRICT
Statement of Fiduciary Net Position
June 30, 2018

	Agency Funds	Trust Fund	
ASSETS	**Student Body Funds**	**Retiree Benefits Fund**	**Total**
Cash	$ 1,403,734	$ 1	$ 1,403,735
Investments	-	43,132,807	43,132,807
Scholarship funds	192,395	-	192,395
Accounts receivable	2,201	-	2,201
Inventories - supplies and materials	90,830	-	90,830
Miscellaneous	11,476	-	11,476
Total assets	$ 1,700,636	43,132,808	44,833,444
LIABILITIES			
Accounts payable	$ 141,700	-	141,700
Due to student groups	1,558,936	-	1,558,936
Total liabilities	$ 1,700,636	-	1,700,636
NET POSITION			
Restricted for postemployment benefits		$ 43,132,808	$ 43,132,808

FONTANA UNIFIED SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Position
For the Fiscal Year Ended June 30, 2018

	Trust Fund Retiree Benefits Fund
ADDITIONS	
Interest	$ 1,263,909
Increase in fair value of investments	601,790
In-district contributions	8,238,399
Total Additions	10,104,098
DEDUCTIONS	
Operating expenses	187,337
Change in net position	9,916,761
Net position - July 1, 2017	33,216,047
Net position - June 30, 2018	$ 43,132,808

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. 61, *The Financial Reporting Entity: Omnibus – An Amendment of GASB Statements No. 14 and No. 34*, 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 Board of Trustees of the component units is essentially the same as the Board of Trustees 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. 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.

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.

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.

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.

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.

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:

Description	Estimated Lives
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.

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.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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.

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.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. New GASB Pronouncements

During the 2017-18 fiscal year, the following GASB Pronouncements became effective:

1. In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits, or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

   This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans.

2. In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. New GASB Pronouncements (continued)

3. In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). Specifically, this Statement addresses the following topics:

   - Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation
   - Reporting amounts previously reported as goodwill and "negative" goodwill
   - Classifying real estate held by insurance entities
   - Measuring certain money market investments and participating interest-earning investment contracts at amortized cost
   - Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus
   - Recognizing on-behalf payments for pensions or OPEB in employer financial statements
   - Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB
   - Classifying employer-paid member contributions for OPEB
   - Simplifying certain aspects of the alternative measurement method for OPEB
   - Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

4. In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources-resources other than the proceeds of refunding debt - are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

NOTE 2 – CASH AND INVESTMENTS

Cash and investments at June 30, 2018, are reported at fair value and consisted of the following:

	Rating	Governmental Activities Governmental Funds	Governmental Activities Proprietary Fund	Governmental Activities Total	Fiduciary Funds
Pooled Funds:					
Cash in County Treasury		$ 289,836,860	$ 7,839,688	$ 297,676,548	$ 1
Deposits:					
Cash on hand and in banks		1,812,039	-	1,812,039	1,596,129
Cash in revolving fund		109,990	150,000	259,990	-
Total Deposits		1,922,029	150,000	2,072,029	1,596,129
Total Cash		$ 291,758,889	$ 7,989,688	$ 299,748,577	$ 1,596,130
Investments:					
US Bank Money Market	A-1+	$ 24,452,909	$ -	$ 24,452,909	$ -
Benefit-Trust:					
Fixed Income:					
Blackrock Total Return-K	5/5				3,883,216
Guggenheim Investments Macro	5/5				3,928,477
Guggenheim Investments Bond Fund	5/5				3,946,539
Hartford World Bond-Y	4/5				1,768,599
Legg Mason BW Global	4/5				1,271,812
Legg Mason BW Alternative Credit	4/5				1,311,338
Prudential Funds Total Return Bond CL Q	5/5				3,882,962
Western Asset Core Plus Bond	5/5				3,857,075
Domestic Equities:					
Alger Funds Small Cap Focus Z	5/5				1,501,175
Alger Funds Spectra Z	4/5				2,253,901
Brandes Funds Intl. Small Cap	3/5				795,296
Columbia Contrarian Core	3/5				1,682,674
Oakmark Select Fund	3/5				1,609,947
Oakmark International Inst.	4/5				1,184,003
Hartford Funds Midcap Class Y	4/5				895,322
John Hancock International Growth R6	4/5				1,285,861
Prudential Jennison Global Opps Q	4/5				681,341
Thornburg Investment Income Builder R6	5/5				1,258,086
Undiscovered Managers Behavioral Value	5/5				880,162
International Equities:					
Hartford International Value-Y	5/5				1,207,688
Clearbridge International CM Cap- IS	2/5				804,983
American Funds New Perspective F2	5/5				874,462
American Funds New World F2	5/5				620,644
Real Estate:					
Cohen and Steers Real Estate Securities-Z	5/5				881,415
Prudential Funds Global Real Estate CL Q	4/5				865,829
Total Investments					$ 43,132,807

Investment security ratings reported as of June 30, 2018, are defined by Morningstar or Standard and Poors.

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, 2018, 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, 2018, $1,498,845 of the District's bank balance was exposed to custodial credit risk because it was uninsured. However, it is 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.

NOTE 2 – CASH AND INVESTMENTS (continued)

Maturities of investments held at June 30, 2018, consisted of the following:

		Maturity		
Investment maturities:	Fair Value	Less Than One Year	One Year Through Five Years	Fair Value Measurement
US Bank Money Market	$ 24,452,909	$ 24,452,909	$ -	Level 2
Benefit-Trust:				
Fixed Income:				
Blackrock Total Return-K	3,883,216	3,883,216	-	Level 2
Guggenheim Investments Macro	3,928,477	3,928,477	-	Level 2
Guggenheim Investments Bond Fund	3,946,539	3,946,539	-	Level 2
Hartford World Bond-Y	1,768,599	1,768,599	-	Level 2
Legg Mason BW Global	1,271,812	1,271,812	-	Level 2
Legg Mason BW Alternative Credit	1,311,338	1,311,338	-	Level 2
Prudential Funds Total Return Bond CL Q	3,882,962	3,882,962	-	Level 2
Western Asset Core Plus Bond	3,857,075	3,857,075	-	Level 2
Domestic Equities:				
Alger Funds Small Cap Focus Z	1,501,175	1,501,175	-	Level 2
Alger Funds Spectra Z	2,253,901	2,253,901	-	Level 2
Brandes Funds Intl. Small Cap	795,296	795,296	-	Level 2
Columbia Contrarian Core	1,682,674	1,682,674	-	Level 2
Oakmark Select Fund	1,609,947	1,609,947	-	Level 2
Oakmark International Inst.	1,184,003	1,184,003	-	Level 2
Hartford Funds Midcap Class Y	895,322	895,322	-	Level 2
Prudential Jennison Global Opps Q	1,285,861	1,285,861	-	Level 2
Thornburg Investment Income Builder R6	681,341	681,341	-	Level 2
Undiscovered Managers Behavioral Value	1,258,086	1,258,086	-	Level 2
Undiscovered Managers Behavioral Value	880,162	880,162	-	Level 2
International Equities:				
Hartford International Value-Y	1,207,688	1,207,688	-	Level 2
Clearbridge International CM Cap- IS	804,983	804,983	-	Level 2
American Funds New Perspective F2	874,462	874,462	-	Level 2
American Funds New World F2	620,644	620,644	-	Level 2
Real Estate:				
Cohen and Steers Real Estate Securities-Z	881,415	881,415	-	Level 2
Prudential Funds Global Real Estate CL Q	865,829	865,829	-	Level 2
Total	$ 67,585,716	$ 67,585,716	$ -	

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, 2018, 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, 2018, the District had the following investment that represented more than five percent of the District's net investments:

US Bank Money Market	36%
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%

Fair Value Measurements
The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value. The following provides a summary of the hierarchy used to measure fair value:

Level 1 – Quoted prices in active markets for identical assets that the District has the ability to access at the measurement date. Level 1 assets may include debt and equity securities that are traded in an active exchange market and that are highly liquid and are actively traded in over-the-counter markets.

Level 2 – Observable inputs other than Level 1 prices such as quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, or other inputs that are observable, such as interest rates and curves observable at commonly quoted intervals, implied volatilities, and credit spreads. For financial reporting purposes, if an asset has a specified term, a Level 2 input is required to be observable for substantially the full term of the asset.

Level 3 – Unobservable inputs should be developed using the best information available under the circumstances, which might include the District's own data. The District should adjust that date if reasonably available information indicates that other market participants would use different data or certain circumstances specific to the District are not available to other market participants.

Uncategorized – Investments in the San Bernardino County Treasury Investment Pool are not measured using the input levels above because the District's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at $1.00 net asset value per share.

All assets have been valued using a market approach, with quoted market prices.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2018, 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	$ 4,467,001	$ 4,976,269	$ 360,609	$ 9,803,879	$ -
State Government:					
Lottery	1,567,174	-	-	1,567,174	-
Special education	669,354	-	-	669,354	-
Categorical aid programs	428,274	299,947	1,284,053	2,012,274	-
Local:					
Interest	720,467	23,546	213,146	957,159	33,017
Other local resources	172,390	-	394,419	566,809	11,756
Total	$ 8,024,660	$ 5,299,762	$ 2,252,227	$ 15,576,649	$ 44,773

NOTE 4 – INTERFUND TRANSACTIONS

A. Balances Due To/From Other Funds

Balances due to/from other funds at June 30, 2018, consisted of the following:

	Due From Other Funds					
	General Fund	Cafeteria Fund	Non-Major Governmental Funds	Total Governmental Funds	Proprietary Fund	Total
General Fund	$ -	$ 7,764	$ 5,738	$ 13,502	$ 3,298,101	$ 3,311,603
Cafeteria Fund	3,520,457	-	-	3,520,457	-	3,520,457
Non-Major Governmental Funds	2,245,875	-	-	2,245,875	-	2,245,875
Self-Insurance Fund	36,413	1,199	-	37,612	-	37,612
Total	$ 5,802,745	$ 8,963	$ 5,738	$ 5,817,446	$ 3,298,101	$ 9,115,547

General Fund to Self-Insurance Fund for district premiums and contributions	$ 3,298,101
General Fund to Child Development Fund for June 2018 envelopes	5,738
General Fund to Cafeteria Fund for June 2018 envelopes and catering invoices	7,764
Adult Education Fund to General Fund for payroll, indrect costs, loan, and miscellaneous costs	790,673
Child Development Fund to General Fund for payroll, indirect costs, catering invoices, and miscellaneous costs	1,368,670
Cafeteria Fund to General Fund for payroll, indirect costs, and miscellaneous costs	3,520,457
Capital Facilities Fund to General Fund for indirect costs	86,532
Self-Insurance Fund to General Fund for payroll	36,413
Self-Insurance Fund to Cafeteria Fund for workers compensation temporary disability	1,199
Total	$ 9,115,547

NOTE 4 – INTERFUND TRANSACTIONS (continued)

B. Transfers To/From Other Funds

Transfers to/from other funds for the fiscal year ended June 30, 2018, consisted of the following:

General Fund transfer to Special Reserve Fund for Capital Outlay Projects for RDA Funds Distribution	$ 3,229,642
General Fund transfer to Cafeteria Fund for bad debt for unallowable expenses	4,264
County School Facilities Fund to Special Reserve Fund for Capital Outlay Projects for subfunds close out	7,856,672
Total	$ 11,090,578

NOTE 5 – FUND BALANCES

At June 30, 2018, 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	-	72,911	-	72,911
Prepaid expenditures	1,366,645	-	-	1,366,645
Total Nonspendable	1,466,645	82,901	-	1,549,546
Restricted:				
Categorical programs	19,251,314	-	1,290,140	20,541,454
Adult education program	-	-	104,598	104,598
Food service program	-	9,841,784	-	9,841,784
Capital projects	-	-	79,858,371	79,858,371
Debt service	-	-	19,981,455	19,981,455
Total Restricted	19,251,314	9,841,784	101,234,564	130,327,662
Committed:				
Deferred maintenance program	-	-	9,157	9,157
Total Committed	-	-	9,157	9,157
Assigned:				
Other assignments	34,128,883	-	282,019	34,410,902
Total Assigned	34,128,883	-	282,019	34,410,902
Unassigned:				
Reserve for economic uncertainties	18,186,871	-	-	18,186,871
Remaining unassigned balances	97,208,172	-	-	97,208,172
Total Unassigned	115,395,043	-	-	115,395,043
Total	$ 170,241,885	$ 9,924,685	$ 101,525,740	$ 281,692,310

NOTE 6 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2018, was as follows:

	Balance, July 1, 2017	Adjustments	Balance, July 1, 2017 as restated	Additions	Retirements	Balance, June 30, 2018
Capital assets not being depreciated:						
Land	$ 58,877,302	$ 1,748,000	$ 60,625,302	$ 462,710	$ 1,748,000	$ 59,340,012
Construction in progress	11,287,044	-	11,287,044	536,850	516,920	11,306,974
Total capital assets not being depreciated	70,164,346	1,748,000	71,912,346	999,560	2,264,920	70,646,986
Capital assets being depreciated:						
Improvement of sites	69,387,947	-	69,387,947	798,129	-	70,186,076
Buildings	659,311,161	-	659,311,161	8,561,941	-	667,873,102
Equipment	64,352,393	-	64,352,393	2,768,481	547,875	66,572,999
Total capital assets being depreciated	793,051,501	-	793,051,501	12,128,551	547,875	804,632,177
Accumulated depreciation for:						
Improvement of sites	(41,368,185)	-	(41,368,185)	(2,233,091)	-	(43,601,276)
Buildings	(224,888,178)	-	(224,888,178)	(15,045,825)	-	(239,934,003)
Equipment	(45,676,975)	-	(45,676,975)	(4,497,548)	(516,804)	(49,657,719)
Total accumulated depreciation	(311,933,338)	-	(311,933,338)	(21,776,464)	(516,804)	(333,192,998)
Total capital assets being depreciated, net	481,118,163	-	481,118,163	(9,647,913)	31,071	471,439,179
Governmental activity capital assets, net	$ 551,282,509	$ 1,748,000	$ 553,030,509	$ (8,648,353)	$ 2,295,991	$ 542,086,165

NOTE 7 – GENERAL LONG-TERM DEBT

Changes in long-term debt for the year ended June 30, 2018, were as follows:

	Balance, July 1, 2017	Restatements	Restated Balance, July 1, 2017	Additions	Deductions	Balance, June 30, 2018	Amount Due Within One Year
General Obligation Bonds:							
Principal repayments	$ 198,269,059	$ -	$ 198,269,059	$ -	$ 8,711,800	$ 189,557,259	$ 9,619,910
Accreted interest component	23,346,602	1,134,474	24,481,076	4,937,033	1,928,200	27,489,909	2,053,090
Unamortized issuance premium	16,717,466	-	16,717,466	-	1,284,684	15,432,782	1,284,684
Total - Bonds	238,333,127	1,134,474	239,467,601	4,937,033	11,924,684	232,479,950	12,957,684
Certificates of Participation:							
Principal repayments	29,200,000	-	29,200,000	-	2,830,000	26,370,000	1,335,000
Unamortized issuance premium	3,800,281	-	3,800,281	-	200,168	3,600,113	200,168
Total - Certificates of Participation	33,000,281	-	33,000,281	-	3,030,168	29,970,113	1,535,168
Qualified Zone Academy Bond							
Scheduled deposits	990,511	-	990,511	-	247,628	742,883	247,627
Accumulated interest	490,847	-	490,847	-	106,345	384,502	117,030
Total - Qualified Zone Academy Bond	1,481,358	-	1,481,358	-	353,973	1,127,385	364,657
Compensated Absences	2,139,120	-	2,139,120	191,490	-	2,330,610	-
Capital leases	834,773	-	834,773	-	178,880	655,893	178,880
Other Postemployment Benefits	122,194,704	2,624,456	124,819,160	15,730,844	17,640,594	122,909,410	-
Totals	$ 397,983,363	$ 3,758,930	$ 401,742,293	$ 20,859,367	$ 33,128,299	$ 389,473,361	$ 15,036,389

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 other postemployment benefits will be paid for by the fund for which the employee worked.

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, 2018, 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, 2018, 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, 2018 of $4,948,118 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, 2017	Additions	Deductions	Balance, June 30, 2018
Refunding Bonds								
1997R	6/18/1997	7/1/2018	4.40%-5.95%	$ 18,670,227	$ 1,118,710	$ -	$ 571,800	$ 546,910
2009R	2/11/2009	5/1/2022	3.0% - 5.25%	18,110,000	8,765,000	-	1,500,000	7,265,000
2012R	10/25/2012	8/1/2031	2.0%-5.0%	78,115,000	70,465,000	-	2,775,000	67,690,000
2014R	5/22/2014	8/1/2031	2.25%-5.0%	12,975,000	8,160,000	-	1,735,000	6,425,000
2016R	6/1/2016	8/1/2029	2.0%-5.0%	49,910,000	48,905,000	-	380,000	48,525,000
			Subtotal Refunding Bonds		137,413,710	-	6,961,800	130,451,910
Measure C (2006)								
2006B	3/11/2008	8/1/2033	3.0% - 5.25%	70,585,909	13,595,909	-	1,750,000	11,845,909
2006C	10/25/2012	8/1/2044	5.0%-5.75%	47,259,440	47,259,440	-	-	47,259,440
				Subtotal Measure C	60,855,349	-	1,750,000	59,105,349
				Total	$ 198,269,059	$ -	$ 8,711,800	$ 189,557,259

Accreted Interest	Series	Balance, July 1, 2017	Restatement	Restated Balance, July 1, 2017	Additions	Deductions	Balance, June 30, 2018
	1997R	$ 2,498,404	$ 1,134,474	$ 3,632,878	$ 185,744	$ 1,928,200	$ 1,890,422
	2006B	8,428,376	-	8,428,376	1,396,040	-	9,824,416
	2006C	12,419,822	-	12,419,822	3,355,249	-	15,775,071
		$ 23,346,602	$ 1,134,474	$ 24,481,076	$ 4,937,033	$ 1,928,200	$ 27,489,909

NOTE 8 – GENERAL LONG-TERM DEBT (continued)

A. General Obligation Bonds (continued)

The annual requirements to amortize general obligation bonds outstanding at June 30, 2018, are as follows:

Fiscal Year	Principal	Interest	Total
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
2022-23	8,830,000	3,580,106	12,410,106
2023-28	61,170,000	10,506,494	71,676,494
2028-33	33,540,597	30,753,137	64,293,734
2033-38	24,292,929	66,907,071	91,200,000
2038-43	19,333,903	72,766,097	92,100,000
2043-45	4,117,920	19,882,080	24,000,000
Total	$ 189,557,259	$ 225,164,224	$ 414,721,483

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 (including premiums of $3,960,745, issuance costs of $555,688, and other reserve sources of $7,361,143) 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, 2018 of $1,517,530 remain to be amortized for this refunding. As of June 30, 2018, the principal balance outstanding on the defeased debt has been paid in full.

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
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
2022-23	1,650,000	798,700	2,448,700
2023-28	9,205,000	2,748,125	11,953,125
2028-33	6,430,000	1,056,500	7,486,500
2033-36	3,230,000	140,550	3,370,550
Total	$ 26,370,000	$ 8,710,800	$ 35,080,800

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
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	$ 742,883	$ 384,502	$ 1,127,385

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
2018-19	$ 178,880
2019-20	178,880
2020-21	178,880
2021-22	119,253
	$ 655,893

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

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, 2018, the District had commitments with respect to unfinished capital projects of approximately $2.3 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, 2018.

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, 2018, 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 2017-18, the District was self-funded for workers' compensation for the first $750,000 of a claim, with excess coverage provided by Mid-West Employers (a fully insured program).

Employee Medical Benefits

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

Claims Liability

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

Unpaid Claims Liabilities

The District establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represent the changes in approximate aggregate liabilities for the District's workers' compensation from July 1, 2016 to June 30, 2018:

	Workers' Compensation
Liability Balance, July 1, 2016	$ 5,541,882
Claims and changes in estimates	2,085,502
Claims payments	(2,042,140)
Liability Balance, June 30, 2017	5,585,244
Claims and changes in estimates	1,590,432
Claims payments	(1,833,689)
Liability Balance, June 30, 2018	$ 5,341,987
Assets available to pay claims at June 30, 2018	$ 11,332,562

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 the California Public Employees' Retirement System (CalPERS).

For the fiscal year ended June 30, 2018, the District reported net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense for each of the above plans as follows:

Pension Plan	Net Pension Liability	Deferred Outflows of Resources	Deferred Inflows of Resources	Pension Expense
CalSTRS	$ 325,829,231	$ 105,538,013	$ 14,360,726	$ 42,105,802
CalPERS	123,416,822	40,814,338	1,453,081	22,993,671
Safety risk pool	1,888,265	727,385	330,447	649,081
Total	$ 451,134,318	$ 147,079,736	$ 16,144,254	$ 65,748,554

The details of each plan are as follows:

A. California State Teachers' Retirement System (CalSTRS)

Plan Description

The District contributes to the State Teachers Retirement Plan (STRP) administered by the California State Teachers' Retirement System (CalSTRS). STRP is a cost-sharing multiple-employer public employee retirement system defined benefit pension plan. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2016, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at: http://www.calstrs.com/member-publications.

Benefits Provided

The STRP provides retirement, disability and survivor benefits to beneficiaries. Benefits are based on members' final compensation, age, and years of service credit. Members hired on or before December 31, 2012, with five years of credited service are eligible for the normal retirement benefit at age 60. Members hired on or after January 1, 2013, with five years of credited service are eligible for the normal retirement benefit at age 62. The normal retirement benefit is equal to 2.0% of final compensation for each year of credited service.

The STRP is comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program, and Replacement Benefits Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs. CalSTRS also uses plan assets to defray reasonable expenses of administering the STRP. Although CalSTRS is the administrator of the STRP, the state is the sponsor of the STRP and obligor of the trust. In addition, the state is both an employer and nonemployer contributing entity to the STRP.

NOTE 12 – PENSION PLANS (continued)

A. California State Teachers' Retirement System (CalSTRS) (continued)

Benefits Provided (continued)
The District contributes exclusively to the STRP Defined Benefit Program, thus disclosures are not included for the other plans.

The STRP provisions and benefits in effect at June 30, 2018, are summarized as follows:

	STRP Defined Benefit Program	
	On or before	On or after
Hire Date	December 31, 2012	January 1, 2013
Benefit Formula	2% at 60	2% at 62
Benefit Vesting Schedule	5 years of service	5 years of service
Benefit Payments	Monthly for life	Monthly for life
Retirement Age	60	62
Monthly Benefits as a Percentage of Eligible Compensation	2.0%-2.4%	2.0%-2.4%
Required Employee Contribution Rate	10.25%	9.205%
Required Employer Contribution Rate	14.43%	14.43%
Required State Contribution Rate	9.328%	9.328%

Contributions
Required member District and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1% of applicable member earnings phased over a seven year period. The contribution rates for each plan for the year ended June 30, 2018, are presented above and the District's total contributions were $27,045,614.

Pension Liabilities, Pension Expenses, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions
At June 30, 2018, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related state support and the total portion of the net pension liability that was associated with the District were as follows:

Total net pension liability, including State share:	
District's proportionate share of net pension liability	$ 325,829,231
State's proportionate share of the net pension liability associated with the District	76,093,710
Total	$ 401,922,941

NOTE 12 – PENSION PLANS (continued)

A. California State Teachers' Retirement System (CalSTRS) (continued)

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

The net pension liability was measured as of June 30, 2017. 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 plan relative to the projected contributions of all participating school districts and the State, actuarially determined. The District's proportions of the net pension liability for the two most recent measurement periods were:

	Percentage Share of Risk Pool		
	Fiscal Year Ending June 30, 2018	**Fiscal Year Ending June 30, 2017**	**Change Increase/ (Decrease)**
Measurement Date	June 30, 2017	June 30, 2016	
Proportion of the Net Pension Liability	0.352324%	0.363000%	-0.010676%

For the year ended June 30, 2018, the District recognized pension expense of $42,105,802. In addition, the District recognized pension expense and revenue of $3,434,975 for support provided by the State. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 27,045,614	$ -
Net change in proportionate share of net pension liability	16,923,781	-
Difference between projected and actual earnings on pension plan investments	-	8,677,740
Changes of assumptions	60,363,670	-
Differences between expected and actual experience in the measurement of the total pension liability	1,204,948	5,682,986
Total	$ 105,538,013	$ 14,360,726

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year. The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period. The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, changes of assumptions, and differences between expected and actual experience in the measurement of the total pension liability will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is 7 years.

NOTE 12 – PENSION PLANS (continued)

A. California State Teachers' Retirement System (CalSTRS) (continued)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	$ 5,609,098
2020	18,282,192
2021	13,610,376
2022	5,112,321
2023	13,480,016
Thereafter	8,037,671
Total	$ 64,131,673

Actuarial Methods and Assumptions

Total pension liability for STRS was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total pension liability to June 30, 2017. The financial reporting actuarial valuation as of June 30, 2016, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Experience Study	July 1, 2010 through June 30, 2015
Actuarial Cost Method	Entry age normal
Investment Rate of Return	7.1%
Consumer Price of Inflation	2.75%
Wage Growth	3.5%

CalSTRS changed the mortality assumptions based on the July 1, 2010, through June 30, 2015, experience study adopted by the board in February 2017. CalSTRS uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among our members. The projection scale was set equal to 110% of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table, issued by the Society of Actuaries.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best-estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant (Pension Consulting Alliance–PCA) as an input to the process. The actuarial investment rate of return assumption was adopted by the board in February 2017 in conjunction with the most recent experience study.

NOTE 12 – PENSION PLANS (continued)

A. California State Teachers' Retirement System (CalSTRS) (continued)

Actuarial Methods and Assumptions (continued)
For each future valuation, CalSTRS consulting actuary (Milliman) reviews the return assumption for reasonableness based on the most current capital market assumptions. Best estimates of 20-year geometrically-linked real rates of return and the assumed asset allocation for each major asset class for the year ended June 30, 2017, are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global Equity	47%	6.30%
Fixed Income	12%	0.30%
Real Estate	13%	5.20%
Private Equity	13%	9.30%
Absolute Return/Risk Mitigating Strategies	9%	2.90%
Inflation Sensitive	4%	3.80%
Cash/Liquidity	2%	-1.00%

Discount Rate
The discount rate used to measure the total pension liability was 7.1%. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.1%) and assuming that contributions, benefit payments and administrative expense occurred midyear. Based on these 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 total pension liability.

The following presents the District's proportionate share of the net pension liability calculated using the current discount rate as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

Discount Rate	Net Pension Liability
1% decrease (6.10%)	$ 478,420,754
Current discount rate (7.10%)	325,829,231
1% increase (8.10%)	201,990,870

On Behalf Payments
The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of $15,675,338 (9.328% of annual payroll). Under accounting principles generally accepted in the United States of America, these amounts are reported as revenues and expenditures. On behalf payments have been included in the budgeted amounts reported in the General Fund - Budgetary Comparison Schedule.

NOTE 12 – PENSION PLANS (continued)

B. California Public Employees Retirement System (CalPERS)

Plan Description
Qualified employees are eligible to participate in the School Employer Pool (SEP) 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 are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2016 annual actuarial valuation report, Schools Pool Actuarial Valuation. This report and CalPERS audited financial information are publically available reports that can be found on the CalPERS website under Forms and Publications at: https://www.calpers.ca.gov/page/forms-publications.

Benefits Provided
CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of service credit, a benefit factor, and the member's final compensation. Members hired on or before December 31, 2012, with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. Members hired on or after January 1, 2013, with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The Basic Death Benefit is paid to any member's beneficiary if the member dies while actively employed. An employee's eligible survivor may receive the 1957 Survivor Benefit if the member dies while actively employed, is at least age 50 (or 52 for members hired on or after January 1, 2013), and has at least five years of credited service. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The CalPERS provisions and benefits in effect at June 30, 2018, are summarized as follows:

	School Employer Pool (CalPERS)	
	On or before	On or after
Hire Date	December 31, 2012	January 1, 2013
Benefit Formula	2% at 55	2% at 62
Benefit Vesting Schedule	5 years of service	5 years of service
Benefit Payments	Monthly for life	Monthly for life
Retirement Age	55	62
Monthly Benefits as a Percentage of Eligible Compensation	1.1%-2.5%	1.0%-2.5%
Required Employee Contribution Rate	7.00%	6.00%
Required Employer Contribution Rate	15.531%	15.531%

Contributions
Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. 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.

NOTE 12 – PENSION PLANS (continued)

B. California Public Employees Retirement System (CalPERS) (continued)

Contributions (continued)
The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2018, are presented above and the total District contributions were $11,297,789.

Pension Liabilities, Pension Expenses, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions
As of June 30, 2018, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling $123,416,822. The net pension liability was measured as of June 30, 2017. 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 plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportions of the net pension liability for the two most recent measurement periods were:

	Percentage Share of Risk Pool		
	Fiscal Year Ending June 30, 2018	**Fiscal Year Ending June 30, 2017**	**Change Increase/ (Decrease)**
Measurement Date	June 30, 2017	June 30, 2016	
Proportion of the Net Pension Liability	0.516980%	0.504100%	0.012880%

For the year ended June 30, 2018, the District recognized pension expense of $22,993,671. At June 30, 2018, 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	$ 11,297,789	$ -
Net change in proportionate share of net pension liability	2,798,687	-
Difference between projected and actual earnings on pension plan investments	4,269,378	-
Changes of assumptions	18,026,968	1,453,081
Differences between expected and actual experience in the measurement of the total pension liability	4,421,516	-
Total	$ 40,814,338	$ 1,453,081

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year. The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period. The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, changes of assumptions, and differences between expected and actual experience in the measurement of the total pension liability will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is 4 years.

NOTE 12 – PENSION PLANS (continued)

B. California Public Employees Retirement System (CalPERS) (continued)

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

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	$ 7,825,720
2020	12,258,262
2021	9,788,362
2022	(1,808,875)
2023	-
Thereafter	-
Total	$ 28,063,468

Actuarial Methods and Assumptions

Total pension liability for SEP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total pension liability to June 30, 2017. The financial reporting actuarial valuation as of June 30, 2016, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Experience Study	July 1, 1997 through June 30, 2011
Actuarial Cost Method	Entry age normal
Discount Rate	7.15%
Consumer Price of Inflation	2.75%
Wage Growth	Varies by entry age and service

Mortality assumptions are based on mortality rates resulting from the most recent CalPERS experience study adopted by the CalPERS Board. For purposes of the post-retirement mortality rates, those revised rates include 20 years of mortality improvements, using Scale BB published by the Society of Actuaries.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first ten years) and the long-term (11+ 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 adjusted to account for assumed administration expenses.

NOTE 12 – PENSION PLANS (continued)

B. California Public Employees Retirement System (CalPERS) (continued)

Actuarial Methods and Assumptions (continued)
The target asset allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global Equity	47%	5.38%
Fixed Income	19%	2.27%
Inflation Assets	6%	1.39%
Private Equity	12%	6.63%
Real Estate	11%	5.21%
Infrastructure and Forestland	3%	5.36%
Liquidity	2%	-0.90%

Discount Rate
The discount rate used to measure the total pension liability was 7.15%. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Based on these assumptions, the School Employer Pool 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 total pension liability.

The following presents the District's proportionate share of the net pension liability calculated using the current discount rate as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

Discount Rate	Net Pension Liability
1% decrease (6.15%)	$ 181,585,694
Current discount rate (7.15%)	123,416,822
1% increase (8.15%)	75,160,871

C. Public Agency Cost Sharing Multiple-Employer Defined Benefit Pension Plan

Plan Description
All qualified permanent and probationary employees are eligible to participate in the Public Agency Cost-Sharing Multiple-Employer Defined Benefit Pension Plan (the Plan), administered by the California Public Employees' Retirement System (CalPERS). The Plan's benefit provisions are established by statute. The Plan is included as a pension trust fund in the CalPERS Comprehensive Annual Financial Report, which is available online at www.calpers.ca.gov.

NOTE 12 – PENSION PLANS (continued)

C. Public Agency Cost Sharing Multiple-Employer Defined Benefit Pension Plan (continued)

Plan Description (continued)
The Plan consists of a miscellaneous pool and a safety pool (referred to as "risk pools"), which are comprised of individual employer miscellaneous and safety rate plans, respectively, including those of the Fontana Unified School District. The Fontana Unified School District does not have any rate plans in the miscellaneous risk pool. The Fontana Unified School District's employer rate plans in the safety risk pool include the Safety School Police plan (School Police) and the PEPRA Safety School Police plan (PEPRA School Police).

Benefits Provided
The Plan provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Classic members and PEPRA Safety members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. PEPRA Miscellaneous members with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The death benefit is the Basic Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law. The Plans' provisions and benefits in effect at June 30, 2018, are summarized as follows:

Employer Rate Plans in the Safety Risk Pool

Employer rate plan	**School Police**	**PEPRA School Police**
Hire Date	Prior to January 1, 2013	On or After January 1, 2013
Benefit Formula	3.0% @ 50	2.7% @ 57
Benefit Vesting Schedule	5 years of service	5 years of service
Benefit Payments	Monthly for life	Monthly for life
Retirement Age	50	50
Monthly Benefit as a % of Eligible Compensation		
Required Employee Contribution Rates	8.988%	12.25%
Required Employer Contribution Rates	21.418%	12.729%

Contributions
Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the CalPERS actuary and shall be effective on the July 1 following notice of a change in the rate. Contribution rates for the employer rate plans are determined through the CalPERS' annual actuarial valuation process. Each employer rate plan's actuarially determined rate is based on the estimated amount necessary to pay the employer rate plan's allocated share of the cost of benefits earned by employees during the year, and any unfunded accrued liability. The Fontana Unified School District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

NOTE 12 – PENSION PLANS (continued)

C. Public Agency Cost Sharing Multiple-Employer Defined Benefit Pension Plan (continued)

Contributions (continued)
The Fontana Unified School District's contributions to the risk pools in the Plan for the year ended June 30, 2018, were as follows:

	Contributions
Miscellaneous Risk Pool	$ -
Safety Risk Pool	340,944
Total Contributions	$ 340,944

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions
As of June 30, 2018, Fontana Unified School District reported net pension liabilities for its proportionate shares of the net pension liability of each risk pool as follows:

	Proportionate Share of Net Pension Liability
Miscellaneous Risk Pool	$ -
Safety Risk Pool	1,888,265
Total Net Pension Liability	$ 1,888,265

* The proportionate share of the total NPL to each of the enterprise and internal service funds is not being allocated because it is deemed to have an immaterial effect on the financial statements.

The Fontana Unified School District's net pension liability for each risk pool is measured as the proportionate share of each risk pool's net pension liability. GASB 68 indicates that to the extent different contribution rates are assessed based on separate relationships that constitute the collective net pension liability, the determination of the employer's proportionate share of the collective net pension liability should be made in a manner that reflects those relationships. The allocation method used by CalPERS to determine each employer's proportionate share reflects those relationships through the employer rate plans they sponsor within the respective risk pools. An actuarial measurement of the employer's rate plan liability and asset-related information are used where available, and proportional allocations of individual employer rate plan amounts as of the valuation date are used where not available.

The Fontana Unified School District's proportionate share of the net pension liability as of June 30, 2016, the valuation date, was calculated as follows:

In determining an employer's proportionate share, the employer rate plans included in the Plan were assigned to either the Miscellaneous or Safety risk pool. Estimates of the total pension liability and the fiduciary net position were first determined for the individual rate plans and each risk pool as of the valuation date, June 30, 2016. Each employer rate plan's fiduciary net position was subtracted from its total pension liability to obtain its net pension liability as of the valuation date.

NOTE 12 – PENSION PLANS (continued)

C. Public Agency Cost Sharing Multiple-Employer Defined Benefit Pension Plan (continued)

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

The Fontana Unified School District's proportionate share percentage for each risk pool at the valuation date was calculated by dividing the Fontana Unified School District's net pension liability for each of its employer rate plans within each risk pool by the net pension liability of the respective risk pool as of the valuation date.

The Fontana Unified School District's proportionate share of the net pension liability as of June 30, 2017, the measurement date, was calculated as follows:

Each risk pool's total pension liability was computed at the measurement date, June 30, 2017, by applying standard actuarial roll-forward methods to the total pension liability amounts as of the valuation date. The fiduciary net position for each risk pool at the measurement date was determined by CalPERS' Financial Office. The net pension liability for each risk pool at June 30, 2017, was computed by subtracting the respective risk pool's fiduciary net position from its total pension liability.

The individual employer risk pool's proportionate share percentage of the total pension liability and fiduciary net position as of June 30, 2017, was calculated by applying Fontana Unified School District's proportionate share percentage as of the valuation date (described above) to the respective risk pool's total pension liability and fiduciary net position as of June 30, 2017, to obtain the total pension liability and fiduciary net position as of June 30, 2017. The fiduciary net position was then subtracted from total pension liability to obtain the net pension liability as of the measurement date.

The Fontana Unified School District's proportionate share percentage of the net pension liability for each risk pool as of June 30, 2016, and June 30, 2017, was as follows:

	Safety Risk Pool
Proportion at Measurement date - June 30, 2016	0.030509%
Proportion at Measurement date - June 30, 2017	0.031602%
Change - increase (decrease)	0.001093%

NOTE 12 – PENSION PLANS (continued)

C. Public Agency Cost Sharing Multiple-Employer Defined Benefit Pension Plan (continued)

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

For the year ended June 30, 2018, the Fontana Unified School District recognized pension expense of $649,081. At June 30, 2018, the Fontana Unified School 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
Contributions after Measurement Date	$ 340,944	$ -
Differences between Expected and Actual Experience	22,884	-
Changes of Assumptions	331,889	-
Net Difference between Projected and Actual Earnings on Pension Plan Investments	-	(179,199)
Adjustment due to Differences in Proportions	31,668	-
Differences between Actual and Required Contributions	-	(151,248)
Total	$ 727,385	$ (330,447)

Amounts other than contributions subsequent to the measurement date reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Measurement Date June 30:	Deferred Outflows/(Inflows) Of Resources
2018	$ 39,199
2019	39,199
2020	22,395
2021	(44,799)
2022	-
Thereafter	-
Total	$ 55,994

NOTE 12 – PENSION PLANS (continued)

C. Public Agency Cost Sharing Multiple-Employer Defined Benefit Pension Plan (continued)

Actuarial Assumptions
The total pension liabilities in the June 30, 2017 actuarial valuations were determined using the following actuarial assumptions:

	Safety
Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase (1)	Varies By Age & Length of Service
Investment Rate of Return (2)	7.50%
Mortality Rate Table (3)	Derived using CalPERS' Membership Data for all Funds

(1) Depending on age, service and type of employment

(2) Net of Pension Plan Investment and Administrative Expenses; includes Inflation

(3) The mortality table used was developed based on CalPERS-specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the April 2014 experience study report (based on CalPERS demographic data from 1997 to 2011) available online at https://www.calpers.ca.gov/docs/forms-publications/calpers-experience-study-2014.pdf.

Discount Rate
The discount rate used to measure the total pension liability was 7.15%. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plan, CalPERS stress tested employer rate plans within the Plan that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested employer rate plans run out of assets. Therefore, the current 7.15% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The stress test results are presented in a detailed report, *GASB Statements 67 and 68 Crossover Testing Report for Measurement Date June 30, 2017 based on June 30, 2016 Valuations,* that can be obtained from the CalPERS website.

According to Paragraph 30 of GASB 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. For the CalPERS Plan, the 7.15% investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65%.

NOTE 12 – PENSION PLANS (continued)

C. Public Agency Cost Sharing Multiple-Employer Defined Benefit Pension Plan (continued)

Discount Rate (continued)
Using this lower discount rate has resulted in a slightly higher total pension liability and net pension liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

In the December 2016 and April 2017 meetings, the Board voted to lower the funding discount rates used for the PERF. In making its decision, the Board reviewed recommendations from CalPERS team members, external pension and investment consultants, and input from employer and employee stakeholder groups. A lowered funding discount rate for the PERF will be phased in over a three-year period beginning July 1, 2018 for public agencies and school districts.

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, CalPERS took into account both short- term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the Plan's asset classes, expected compound (geometric) returns were calculated over the short-term (first 11 years) and the long-term (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 the Plan. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

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

Asset Class	New Strategic Allocation	Real Return Years 1-10(a)	Real Returns Years 11+(b)
Global Equity	47.0%	4.9%	5.38%
Global Fixed Income	19.0	0.8	2.27
Inflation Sensitive	6.0	0.6	1.39
Private Equity	12.0	6.6	6.63
Real Estate	11.0	2.8	5.21
Infrastructure and Forestland	3.0	3.9	5.36
Liquidity	2.0	(0.4)	(0.9)

(a) An expected inflation of 2.5% used for this period.
(b) An expected inflation of 3.0% used for this period.

NOTE 12 – PENSION PLANS (continued)

C. Public Agency Cost Sharing Multiple-Employer Defined Benefit Pension Plan (continued)

Sensitivity of the Fontana Unified School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate
The following presents the Fontana Unified School District's proportionate share of the net pension liability of the each risk pool as of the measurement date, calculated using the discount rate, as well as what the Fontana Unified School 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:

	Discount Rate -1% (6.15%)	Current Discount Rate (7.15%)	Discount Rate +1 (8.15%)
Fontana Unified School District's proportionate share of the Safety Risk Pool's net pension liability	$ 2,984,692	$ 1,888,265	$ 991,990

D. Social Security
As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) must be covered by social security or an alternative plan. The District has elected to use the Social Security as its alternative plan.

E. Payables to the Pension Plans
At June 30, 2018, the District reported payables of $2,483,513 and $55,613 for the outstanding amount of legally required contributions to the CalSTRS and CalPERS pension plans, respectively, required for the fiscal year ended June 30, 2018.

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.

Benefits provided

	Certificated	Classified and Police	Management
Benefit Types Provided	Medical, Dental and Vison	Medical, Dental and Vison	Medical, Dental and Vison
Duration of Benefits	6 years	6 years	6 years
Required Service	15 years	15 years	15 years
Minimum Age	50	50	50
Dependent Coverage	Yes	Yes	Yes
District Contribution %	100%	100%	100%
District Cap	None	None	None

Retirees may elect 6 years of a full benefits Package (including medical, dental, vision and life insurance) or 8 years of medical coverage only. Employees with at least 35 years of service (33 years for management and classified) receive lifetime medical coverage and 6 years of dental, vision and life insurance coverage. Married employees who are both employed by Fontana USD, and have entitlement to these benefits, may elect to receive benefits consecutively subject to certain restrictions. Certain retirees may defer receipt of retiree benefits subject to certain restrictions.

NOTE 13 – OTHER POSTEMPLOYMENT BENEFITS

A. Plan Description (continued)

Employees covered by benefit terms
At June 30, 2017, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefit payments	582
Active plan members	3,675
Total	4,257

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.

Medicare Premium Payment (MPP) Program
The Medicare Premium Payment Program is a cost-sharing multiple-employer other postemployment benefit plan established pursuant to Chapter 1032, Statutes of 2000 (SB 1435). CalSTRS administers the MPP Program, through the Teachers' Health Benefit Fund. The MPP Program pays Medicare Part A premiums and Medicare Parts A and B late enrollment surcharges for eligible members of the Defined Benefit Program who were retired or began receiving a disability allowance prior to July 1, 2012, and were not eligible for premium free Medicare Part A. The payments are made directly to the Centers for Medicare and Medicaid Services on a monthly basis.

B. Net OPEB Liability

The District's net OPEB liability for the District plan was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2017. The District's proportionate share of the net MPP Program OPEB liability was measured as of June 30, 2017, and was determined by an actuarial valuation as of June 30, 2016.

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

	District Plan	MPP Program
Valuation Date	June 30, 2017	June 30, 2016
Experience Study	N/A	July 1, 2010, through June 30, 2015
Inflation	2.75 percent per year	N/A
Salary increases	2.75 percent per year	N/A
Investment rate of return	5.80 percent	3.58 percent
Healthcare cost trend rates	4.00 percent	3.7 percent for Medicare Part A, and 4.1 percent for Medicare Part B

NOTE 13 – OTHER POSTEMPLOYMENT BENEFITS (continued)

B. Net OPEB Liability (continued)

District Plan
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.

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.

NOTE 13 – OTHER POSTEMPLOYMENT BENEFITS (continued)

B. Net OPEB Liability (continued)

District Plan (continued)
The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which the best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	25%	7.5%
Fixed income	55%	4.5%
Private equity	15%	7.5%
Real estate	5%	7.5%
Total	100%	

MPP Program
The discount rate used to measure the total OPEB liability was 3.58 percent. The MPP Program is funded on a pay-as-you-go basis, and under the pay-as-you-go method, the OPEB plan's fiduciary net position was not projected to be sufficient to make projected future benefit payments. Therefore, a discount rate of 3.58 percent, which is the Bond Buyer 20-Bond GO Index from Bondbuyer.com as of June 30, 2017, was applied to all periods of projected benefit payments to measure the total OPEB liability.

CalSTRS changed the mortality assumptions based on the July 1, 2010, through June 30, 2015, experience study adopted by the board in February 2017. CalSTRS uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fi t the patterns of mortality among our members. The projection scale was set equal to 110 percent of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table, issued by the Society of Actuaries.

Discount Rate

District Plan
The discount rate used to measure the total OPEB liability was 5.8 percent. The projection of cash flows used to determine the discount rate assumed that District contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be sufficient to fully fund the obligation over a period not to exceed 30 years. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

NOTE 13 – OTHER POSTEMPLOYMENT BENEFITS (continued)

B. Net OPEB Liability (continued)

MPP Program
The discount rate used to measure the total OPEB liability was 3.58 percent. The MPP Program is funded on a pay-as-you-go basis, and under the pay-as-you-go method, the OPEB plan's fiduciary net position was not projected to be sufficient to make projected future benefit payments. Therefore, a discount rate of 3.58 percent, which is the Bond Buyer 20-Bond GO Index from Bondbuyer.com as of June 30, 2017, was applied to all periods of projected benefit payments to measure the total OPEB liability.

C. Changes in the Net OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability	**Plan Fiduciary Net Position**	**Net OPEB Liability**
Balance at July 1, 2017	$ 155,410,749	$ 33,216,045	$ 122,194,704
Changes for the year:			
Service cost	6,033,254	-	6,033,254
Interest	8,992,926	-	8,992,926
Employer contributions	-	14,992,254	(14,992,254)
Expected Investment Income	-	2,147,370	(2,147,370)
Investment Gains/Losses	-	(275,664)	275,664
Administrative expense	-	(193,342)	193,342
Benefit payments	(6,753,855)	(6,753,855)	-
Net changes	8,272,325	9,916,763	(1,644,438)
Balance at June 30, 2018	$ 163,683,074	$ 43,132,808	120,550,266
District's Proportionate Share of the Net MPP OPEB Liability			2,359,144
District's Total Reported Net OPEB Liability			$ 122,909,410

Sensitivity of the total 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 one percentage-point lower or one percentage-point higher than the current discount rate:

	1% Decrease 4.8%	Discount Rate 5.8%	1% Increase 6.8%
District Plan	$ 148,318,240	$ 120,550,266	$ 98,545,150

	1% Decrease 2.58%	Discount Rate 3.58%	1% Increase 4.58%
MPP Program	$ 2,611,737	$ 2,359,144	$ 2,113,444

NOTE 13 – OTHER POSTEMPLOYMENT BENEFITS (continued)

C. Changes in the Net OPEB Liability (continued)

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 one percentage-point lower or one percentage-point higher than the current healthcare cost trend rates:

	1% Decrease 3.00%	Healthcare Cost Trend Rates 4.00%	1% Increase 5.00%
District Plan	$ 96,890,373	$ 120,550,266	$ 149,964,381

	1% Decrease (2.7% Part A and 3.1% Part B)	Medicare Cost Trend Rates (3.7% Part A and 4.1% Part B)	1% Increase (4.7% Part A and 5.1% Part B)
MPP Program	$ 2,131,848	$ 2,359,144	$ 2,584,171

OPEB plan fiduciary net position
Detailed information about the OPEB plan's fiduciary net position is available in the separately issued plan financial report.

D. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB
For the year ended June 30, 2018, the District recognized OPEB expense of $13,114,818. At June 30, 2018, the District reported deferred outflows of resources in the amount of $220,532 that will be recognized in OPEB expense as follows:

Year Ended June 30:	Deferred Outflows of Resources
2019	$ 55,133
2020	55,133
2021	55,133
2022	55,133
2023	-
Thereafter	-
Total	$ 220,532

NOTE 14 – ADJUSTMENTS FOR RESTATEMENTS

Beginning net position on the Statement of Activities has been restated by $2,518,686. Details of the restatement are:

	Government-wide Statement of Activities	
Adjustment from MPP (OPEB)	$	(2,624,456)
Adjustment from PERS (safety pool)		(1,580,126)
Adjustment from accreted interest		(1,134,474)
Adjustment from accrued interest		1,072,370
Adjustment from capital assets		1,748,000
Total	$	(2,518,686)

NOTE 15 – SUBSEQUENT EVENT

Events subsequent to June 30, 2018, have been evaluated through December 11, 2018, the date at which the District's audited financial statements were available to be issued. The following events requiring disclosure have occurred through this date:

Establishment of Pension Trust Fund
On August 29, 2018, the Board formally established a Fund 72 to allow for board transfers to a Pension Trust Fund for the purpose of pre-funding pension obligations and/or OPEB obligations.

Required Supplementary Information

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FONTANA UNIFIED SCHOOL DISTRICT

Budgetary Comparison Schedule – General Fund

For the Fiscal Year Ended June 30, 2018

	Budgeted Amounts		Actual*	Variance with Final Budget -
	Original	Final	(Budgetary Basis)	Pos (Neg)
Revenues				
LCFF sources	$ 382,314,366	$ 381,836,831	$ 381,278,355	$ (558,476)
Federal sources	25,570,159	33,521,997	26,020,099	(7,501,898)
Other state sources	48,901,634	66,716,566	61,273,336	(5,443,230)
Other local sources	1,484,765	7,454,809	7,685,932	231,123
Total Revenues	458,270,924	489,530,203	476,257,722	(13,272,481)
Expenditures				
Current:				
Certificated salaries	192,951,309	193,611,235	190,740,941	2,870,294
Classified salaries	60,661,404	62,979,321	62,978,970	351
Employee benefits	124,305,474	129,967,669	127,768,347	2,199,322
Books and supplies	21,416,063	36,178,512	20,181,570	15,996,942
Services and other operating expenditures	42,321,338	53,664,537	42,709,521	10,955,016
Transfers of indirect costs	(1,890,563)	(1,602,195)	(1,618,749)	16,554
Capital outlay	22,201,777	14,015,443	8,330,792	5,684,651
Intergovernmental	77,941	151,376	167,597	(16,221)
Total Expenditures	462,044,743	488,965,898	451,437,869	37,528,029
Excess (Deficiency) of Revenues Over (Under) Expenditures	(3,773,819)	564,305	24,819,853	24,255,548
Other Financing Sources and Uses				
Interfund transfers out	-	(3,239,448)	(3,233,906)	5,542
Total Other Financing Sources and Uses	-	(3,239,448)	(3,233,906)	5,542
Fund Balances, July 1, 2017	136,581,102	136,581,102	136,581,102	-
Fund Balances, June 30, 2018	$ 132,807,283	$ 133,905,959	$ 158,167,049	$ 24,261,090

* 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, 2018

	Budgeted Amounts		Actual	Variance with Final Budget -
	Original	Final	(Budgetary Basis)	Pos (Neg)
Revenues				
Federal sources	$ 20,833,501	$ 22,903,337	$ 22,550,894	$ (352,443)
Other state sources	1,453,817	1,376,427	1,391,492	15,065
Other local sources	1,004,200	970,598	985,362	14,764
Total Revenues	23,291,518	25,250,362	24,927,748	(322,614)
Expenditures				
Current:				
Classified salaries	8,481,233	8,541,172	8,327,196	213,976
Employee benefits	4,620,784	4,265,983	4,175,813	90,170
Books and supplies	11,063,130	12,566,288	10,712,448	1,853,840
Services and other operating expenditures	522,950	425,946	341,714	84,232
Transfers of indirect costs	1,382,533	1,231,619	1,144,945	86,674
Capital Outlay	1,105,000	647,762	214,133	433,629
Total Expenditures	27,175,630	27,678,770	24,916,249	2,762,521
Excess (Deficiency) of Revenues Over (Under) Expenditures	(3,884,112)	(2,428,408)	11,499	2,439,907
Other Financing Sources and Uses				
Interfund Transfers In	-	694	4,264	3,570
Net Change in Fund Balance	(3,884,112)	(2,427,714)	15,763	2,443,477
Fund Balances, July 1, 2017	9,908,922	9,908,922	9,908,922	-
Fund Balances, June 30, 2018	$ 6,024,810	$ 7,481,208	$ 9,924,685	$ 2,443,477

FONTANA UNIFIED SCHOOL DISTRICT

Schedule of Proportionate Share of the Net Pension Liability
For the Fiscal Year Ended June 30, 2018

Last Ten Fiscal Years*

	2017	2016	2015	2014
CalSTRS				
District's proportion of the net pension liability	0.3523%	0.3630%	0.3620%	0.3150%
District's proportionate share of the net pension liability	$ 325,829,231	$ 293,598,030	$ 243,712,880	$ 184,076,550
State's proportionate share of the net pension liability associated with the District	76,093,710	167,164,729	128,896,902	111,154,484
Totals	$ 401,922,941	$ 460,762,759	$ 372,609,782	$ 295,231,034
District's covered-employee payroll	$ 193,276,161	$ 183,389,842	$ 165,939,764	$ 156,232,242
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	168.58%	160.10%	146.87%	117.82%
Plan fiduciary net position as a percentage of the total pension liability	69%	70%	74%	77%
CalPERS (School Employer Pool)				
District's proportion of the net pension liability	0.5170%	0.5041%	0.4889%	0.5236%
District's proportionate share of the net pension liability	$ 123,416,822	$ 99,560,062	$ 72,064,343	$ 59,441,349
District's covered-employee payroll	$ 67,707,661	$ 64,938,111	$ 57,764,480	$ 53,355,454
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	182.28%	153.32%	124.76%	111.41%
Plan fiduciary net position as a percentage of the total pension liability	72%	74%	79%	83%
CalPERS (Safety Risk Pool)				
Plan proportion of the PERF C net pension liability	0.0190%	0.0183%	0.0182%	0.0175%
Plan proportionate share of the net pension liability	$ 1,888,265	$ 1,580,126	$ 1,248,648	$ 1,088,252
Plan covered-employee payroll	$ 1,325,140	$ 1,194,621	$ 973,214	Unknown
Plan proportionate share of the net pension liability as a percentage of its covered-employee payroll	142.50%	132.27%	128.30%	Unknown
Plan fiduciary net position as a percentage of the total pension liability	75.90%	74.88%	79.78%	Unknown

Notes to Schedule:

Changes in Benefit Terms

A summary of the plan provisions that were used for a specific plan can be found in each plan's annual valuation report.

Change of Assumptions and Methods

CalSTRS:

The assumptions used in determining the Total Pension Liability of the STRP changed as a result of the actuarial experience study for the period starting July 1, 2010 and ending June 30, 2015. The assumption changes were to price inflation, wage growth, discount rate and the mortality tables.

CalPERS:

In Fiscal Year 2016-17, the financial reporting discount rate for the PERF B was lowered from 7.65 percent to 7.15 percent. In December 2016, the CalPERS Board approved lowering the funding discount rate used in the PERF B from 7.50 percent to 7.00 percent, which is to be phased-in over a three-year period (7.50 percent to 7.375 percent, 7.375 percent to 7.25 percent, and 7.25 percent to 7.00 percent) beginning with the June 30, 2017, valuation reports. The funding discount rate includes a 15 basis-point reduction for administrative expenses, and the remaining decrease is consistent with the change in the financial reporting discount rate.

In Fiscal Year 2014-15, the financial reporting discount rate was increased from 7.50 percent to 7.65 percent resulting from eliminating the 15 basis-point reduction for administrative expenses. The funding discount rate remained at 7.50 percent during this period, and remained adjusted for administrative expenses.

Safety Risk Pool:

In 2017, the accounting discount rate reduced from 7.65 percent to 7.15 percent

* *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, 2018

Last Ten Fiscal Years*

	2018	2017	2016	2015
CalSTRS				
Contractually required contribution	$ 27,045,614	$ 24,314,141	$ 19,677,730	$ 14,735,451
Contributions in relation to the contractually required contribution	27,045,614	24,314,141	19,677,730	14,735,451
Contribution deficiency (excess):	$ -	$ -	$ -	$ -
District's covered-employee payroll	$ 187,426,293	$ 193,276,161	$ 183,389,842	$ 165,939,764
Contributions as a percentage of covered-employee payroll	14.43%	12.58%	10.73%	8.88%
CalPERS (School Employer Pool)				
Contractually required contribution	$ 11,297,789	$ 9,403,240	$ 7,693,218	$ 6,799,457
Contributions in relation to the contractually required contribution	11,297,789	9,403,240	7,693,218	6,799,457
Contribution deficiency (excess):	$ -	$ -	$ -	$ -
District's covered-employee payroll	$ 72,743,474	$ 67,707,661	$ 64,938,111	$ 57,764,480
Contributions as a percentage of covered-employee payroll	15.531%	13.888%	11.847%	11.771%
CalPERS (Safety Risk Pool)				
Contractually required contribution	Unknown	Unknown	Unknown	Unknown
Contributions in relation to the contractually required contribution	Unknown	Unknown	Unknown	Unknown
Contribution deficiency (excess):	Unknown	Unknown	Unknown	Unknown
District's covered-employee payroll	Unknown	$ 1,325,140	$ 1,194,621	$ 973,214
Contributions as a percentage of covered-employee payroll	Unknown	Unknown	Unknown	Unknown

* *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 Changes in the District's Total OPEB Liability and Related Ratios
For the Fiscal Year Ended June 30, 2018

	2018
Total OPEB liability	
Service cost	$ 6,033,254
Interest	8,992,926
Benefit payments	(6,753,855)
Net change in total OPEB liability	8,272,325
Total OPEB liability - beginning	155,410,749
Total OPEB liability - ending	$ 163,683,074
Plan fiduciary net position	
Contributions - employer	$ 14,992,254
Net investment income	1,871,706
Benefit payments	(6,753,855)
Administrative expense	(193,342)
Net change in plan fiduciary net position	9,916,763
Plan fiduciary net position - beginning	33,216,045
Plan fiduciary net position - ending	$ 43,132,808
District's net OPEB liability	$ 120,550,266
Plan fiduciary net position as a percentage of the total OPEB liability	26.35%
Covered-employee payroll	$ 236,876,283
District's net OPEB liability as a percentage of covered-employee payroll	50.89%

Notes to Schedule:

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 Changes in the District's Total OPEB Liability and Related Ratios – MPP Program
For the Fiscal Year Ended June 30, 2018

(Dollars in Thousands, except for District's proportionate share)

	2017
Total OPEB liability	
Interest	$ 12,928
Differences between expected and actual experience	(41)
Changes of assumptions	(31,240)
Benefit payments, including refunds of member contributions	(28,929)
Net change in total OPEB liability	(47,282)
Total OPEB liability - beginning	468,031
Total OPEB liability - ending	$ 420,749
Plan fiduciary net position	
Contributions - employer	$ 29,117
Net investment income	11
Premiums paid	(28,929)
Administrative expense	(168)
Net change in plan fiduciary net position	31
Plan fiduciary net position - beginning	10
Plan fiduciary net position - ending	$ 41
Net OPEB liability	$ 420,708
District's proportionate share of net OPEB liability	$ 2,359,144
Plan fiduciary net position as a percentage of the total OPEB liability	0.01%
Covered-employee payroll	N/A
District's net OPEB liability as a percentage of covered-employee payroll	N/A

Notes to Schedule:
As of June 30, 2012, active members are no longer eligible for future enrollment in the MPP Program; therefore, the covered payroll disclosure is not applicable.

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.

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 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.

Schedule of Changes in the District's Total OPEB Liability and Related Ratios

This schedule is required by GASB Statement No. 75 for all sole and agent employers that provide other postemployment benefits (OPEB). The schedule presents information of the measurement date of the net OPEB liability.

NOTE 2 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

At June 30, 2018, the District incurred the following excess of expenditures over appropriations in individual major funds presented in the Budgetary Comparison Schedule:

General Fund	Amount
Intergovernmental	$ 16,221

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Supplementary Information

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

GOVERNING BOARD

Member	Office	Term Expires
Peter Garcia	President	2020
Matt Slowik, MURP, MPA	Vice-President/Clerk	2018
Jason O'Brien	Member	2020
Mary Sandoval	Member	2018
Mars Serna	Member	2018

DISTRICT ADMINISTRATORS

Randal S. Bassett,
Superintendent

Oscar Dueñas,
Associate Superintendent, Student Services

Joseph Bremgartner,
Associate Superintendent, Human Resources

Miki Inbody,
Associate Superintendent, Teaching & Learning

Ryan DiGiulio,
Associate Superintendent, Business Services

FONTANA UNIFIED SCHOOL DISTRICT
Schedule of Average Daily Attendance
For the Fiscal Year Ended June 30, 2018

	Second Period Report Certificate No. (40FC2904)	Annual Report Certificate No. (842B5766)
Regular ADA & Extended Year:		
Transitional Kindergarten through Third	10,446.13	10,441.42
Fourth through Sixth	8,473.50	8,455.16
Seventh and Eighth	5,484.43	5,466.14
Ninth through Twelfth	11,251.71	11,173.24
Total Regular ADA	35,655.77	35,535.96
Special Education-Nonpublic, Nonsectarian Schools:		
Transitional Kindergarten through Third	1.38	1.76
Fourth through Sixth	3.53	3.55
Seventh and Eighth	6.32	6.67
Ninth through Twelfth	25.02	24.92
Total Special Education-Nonpublic, Nonsectarian Schools	36.25	36.90
Total ADA	35,692.02	35,572.86

FONTANA UNIFIED SCHOOL DISTRICT
Schedule of Instructional Time
For the Fiscal Year Ended June 30, 2018

Grade Level	Required	2017-18 Actual Minutes	Number of Days Traditional Calendar	Status
Kindergarten	36,000	36,000	180	Complied
Grade 1	50,400	53,460	180	Complied
Grade 2	50,400	53,460	180	Complied
Grade 3	50,400	53,460	180	Complied
Grade 4	54,000	54,840	180	Complied
Grade 5	54,000	54,840	180	Complied
Grade 6	54,000	54,840	180	Complied
Grade 7	54,000	58,782	180	Complied
Grade 8	54,000	58,782	180	Complied
Grade 9	64,800	65,501	180	Complied
Grade 10	64,800	65,501	180	Complied
Grade 11	64,800	65,501	180	Complied
Grade 12	64,800	65,501	180	Complied

FONTANA UNIFIED SCHOOL DISTRICT
Schedule of Financial Trends and Analysis
For the Fiscal Year Ended June 30, 2018

General Fund	(Budget) 2019 [2]	2018	2017	2016
Revenues and other financing sources	$ 490,557,550	$ 476,257,722	$ 470,486,644	$ 464,259,329
Expenditures	483,181,421	451,437,869	443,741,541	417,103,688
Other uses and transfers out	13,500,000	3,233,906	7,544,319	33,186
Total outgo	496,681,421	454,671,775	451,285,860	417,136,874
Change in fund balance (deficit)	(6,123,871)	21,585,947	19,200,784	47,122,455
Ending fund balance	$ 152,043,178	$ 158,167,049	$ 136,581,102	$ 117,380,318
Available reserves [1]	$ 76,561,717	$ 97,208,172	$ 112,072,912	$ 49,842,528
Available reserves as a percentage of total outgo	15.4%	21.4%	24.8%	11.9%
Total long-term debt	$ 830,720,165	$ 840,607,679	$ 796,480,511	$ 658,686,115
Average daily attendance at P-2	34,912	35,692	36,491	37,195

The General Fund balance has increased overall over the past two years by $40,786,731. The fiscal year 2018-19 adopted budget projects an decrease of $6,123,871. 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 2018-19 fiscal year. Long-term debt has increased by $181,921,564 over the past two years.

Average daily attendance has decreased by 1,503 over the past two years. A decrease of 780 ADA is anticipated during fiscal year 2018-19.

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

[2] Revised Final Budget August, 2018.

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.

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, 2018

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	$ 3,372,659	
National School Lunch Program	10.555	13523	14,463,417	
Summer Food Service Program	10.559	13004	591,988	
USDA Donated Foods	10.555	N/A	1,748,698	
Total Child Nutrition Cluster				$ 20,176,762
Child and Adult Care Food Program Cluster:				
Child and Adult Care Food Program	10.558	13393	2,215,807	
Child and Adult Care Food Program Cash in Lieu	10.558	13393	158,325	
Total Child and Adult Care Food Program Cluster				2,374,132
Total U.S. Department of Agriculture				22,550,894
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	177,339	
Adult Basic Education & ESL	84.002A	14508	176,290	
English Literacy & Civics Education	84.002A	14109	109,764	
Total Adult Education Cluster				463,393
Every Student Succeeds Act (ESSA):				
Title I, Grants to LEA's Cluster:				
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329	14,288,013	
Title I, Part D, Local Delinquent Programs	84.010	14357	14,606	
Total Title I, Grants to LEA's Cluster				14,302,619
Title II, Part A, Supporting Effective Instruction	84.367	14344		932,437
Title III, Limited English Proficiency	84.365	14346		1,332,325
Carl Perkins Act - Secondary	84.048	14894		355,597
Individuals with Disabilities Education Act (IDEA):				
Special Education Cluster:				
Local Assistance Entitlement	84.027	13379	6,079,120	
Local Assistance, Part B, Sec 611, Private School ISPs	84.027	10115	2,709	
Preschool Grants, Part B, Sec 619	84.173	13430	159,642	
Preschool Local Entitlement, Part B, Sec 611	84.027A	13682	509,472	
Mental Health Allocation Plan, Part B, Sec 611	84.027A	14468	420,997	
Preschool Staff Development	84.173A	13431	1,249	
Alternate Dispute Resolution, Part B, Sec 611	84.173A	13007	14,808	
Quality Assurance & Focused Monitoring	84.027A	13693	15,783	
Total Special Education Cluster				7,203,780
Early Intervention Grants, Part C	84.181	23761		129,885
Workability II, Transition	84.158	10006		212,617
Total U.S. Department of Education				24,932,653
U.S. Department of Health & Human Services:				
Passed through California Dept. of Education (CDE):				
Federal Child Care, Center-Based	93.596	13609		119,415
Medicaid Cluster:				
Medi-Cal Billing Option	93.778	10013	523,759	
Medi-Cal Administrative Activities (MAA)	93.778	10060	122,615	
Total Medicaid Cluster				646,374
Direct Federal to Local Program:				
Head Start Cluster:				
Head Start	93.600	10016	118,314	
Early Head Start	93.600	10016	273,494	
Total Head Start Cluster				391,808
Total U.S. Department of Health & Human Services				1,157,597
Total Expenditures of Federal Awards				$ 48,641,144

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

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, 2018.

	CFDA Number	Amount
Total Federal Revenues from the Statement of Revenues, Expenditures, and Changes in Fund Balances		$ 49,545,609
Differences between Federal Revenues and Expenditures:		
Medi-Cal Billing Option	93.778	172,066
Medi-Cal Administrative Activities	93.778	(1,076,531)
Total Schedule of Expenditures of Federal Awards		$ 48,641,144

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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, 2018, 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 11, 2018.

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.

Jeff Nigro, CPA, CFE | Elizabeth Nigro, CPA | Kevin Brejnak, CPA, CFE | Peter Glenn, CPA | Michael Klein, CPA, CMA, EA

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Compliance and Other Matters
As part of obtaining reasonable assurance about whether Fontana Unified School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Nigro + Nigro, PC.

Murrieta, California
December 11, 2018

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 *2017-18 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, 2018.

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 *2017-18 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:

Description	Procedures Performed
Local Education Agencies Other Than Charter Schools:	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	No (see below)
Continuation Education	Yes
Instructional Time	Yes
Instructional Materials	Yes
Ratio of Administrative Employees to Teachers	Yes

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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
Apprenticeship: Related and Supplemental Instruction	Not Applicable
School Districts, County Offices of Education, and Charter Schools:	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After/Before School Education and Safety Program	Yes
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study - Course Based	Not Applicable
Charter Schools:	
Attendance	Not Applicable
Mode of Instruction	Not Applicable
Nonclassroom-Based Instruction/Independent Study	Not Applicable
Determination of Funding for Nonclassroom-Based Instruction	Not Applicable
Annual Instructional Minutes – Classroom Based	Not Applicable
Charter School Facility Grant Program	Not Applicable

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

Unmodified Opinion on Compliance with State Programs
In our opinion, Fontana Unified School District complied, in all material respects, with the types of compliance requirements referred to above for the year ended June 30, 2018.

Nigro + Nigro, PC.

Murrieta, California
December 11, 2018

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, 2018. 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, 2018.

Jeff Nigro, CPA, CFE | Elizabeth Nigro, CPA | Kevin Brejnak, CPA, CFE | Peter Glenn, CPA | Michael Klein, CPA, CMA, EA

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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.

Nigro + Nigro, PC.

Murrieta, California
December 11, 2018

Findings and Questioned Costs

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SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(s) identified not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(s) identified not considered to be material weaknesses?	None reported
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance, Section 200.516	No

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
84.010	Title I Cluster
84.027, 84.173	Special Education Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	$ 1,459,234
Auditee qualified as low-risk auditee?	Yes

State Awards

Type of auditors' report issued on compliance for state programs:	Unmodified

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:

Five Digit Code	AB 3627 Finding Types
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 2017-18.

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 2017-18.

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

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

There were no state award findings or questioned costs in 2017-18.

Original Finding No.	Finding	Code	Recommendation	Current Status
Finding 2017-001: CALPADS Unduplicated Pupil Counts	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. 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.	40000	We recommend that the District implement a review procedure of the CALPADS information prior to the reports submission to the California Department of Education.	Implemented.
Finding 2017-002: School Accountability Report Card	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.	72000	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.	Implemented.

Original Finding No.	Finding	Code	Recommendation	Current Status
Finding 2017-002: School Accountability Report Card (continued)	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. 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.			

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, 2018, 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 11, 2018, 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 at various sites 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.

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ASSOCIATED STUDENT BODY (ASB) FUNDS (continued)

***Observation*:** Through inquiry we noted textbook fees and AP/PSAT fees were collected at various sites 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 ***Ruble Middle, we noted several cash receipts were not deposited in a timely manner. We also noted a disbursement lacked indication of receipt or approval for payment.

***Recommendation*:** We recommend the site emphasize that deposits should be made on a weekly basis or more often as needed. Money should never be left over the weekend or holidays because many thefts often occur during these times. We also recommend that the site require all approvals and appropriate supporting documentation prior to issuing disbursements to ensure that student funds are being properly spent.

Observation*:** During our testing of cash disbursements at ***Jurupa Hills 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*:** During our testing we noted that that bank reconciliations were not performed in a timely manner at some sites. We also noted reconciling items that were older than six months, which need to be investigated.

***Recommendation*:** We recommend that the bookkeeper perform monthly bank reconciliations within two weeks after the statement arrives. We further recommend that checks older than six months be investigated and canceled, if appropriate.

Observation*:** We noted ***Summit High School was unable to provide supporting documentation other than purchase orders to support accounts payable.

***Recommendation*:** We recommend that the site retain invoices to support accounts payable in addition to the purchase order. Unused amounts on purchase orders should not be considered accounts payable unless there is support for an actual purchase.

DISTRICT OFFICE

***Observation*:** During our testing of District cash disbursements, we identified some 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.

DISTRICT OFFICE (continued)

***Observation*:** During our inquiry of Cafeteria internal controls, we discovered that when cash is counted there is only one person present.

***Recommendation*:** We recommend that the District have two people present when counting cash to prevent counting errors and protect those that handle the cash from suspicion if there are shortages.

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

Nigro + Nigro, PC.

Murrieta, California
December 11, 2018