

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



COLTON JOINT UNIFIED SCHOOL DISTRICT

For the Fiscal Year Ended June 30, 2017

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Financial Section

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INDEPENDENT AUDITORS' REPORT

Board of Education
Colton Joint Unified School District
Colton, 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 Colton Joint Unified School District, as of and for the fiscal year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Colton Joint Unified School District, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

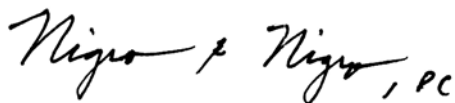
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 12, budgetary comparison information on page 51, schedule of OPEB funding progress on page 52, schedule of proportionate share of the net pension liability on page 53, and schedule of pension contributions on page 54 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 58 to 64, including the schedule of expenditures of federal awards on page 62, 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 57 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2017, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Murrieta, California
December 12, 2017

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

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

FINANCIAL HIGHLIGHTS

- The District's financial status decreased overall as a result of this year's operations. Net position of governmental activities decreased by \$9.2 million, or 10.9%.
- Governmental expenses were about \$307.7 million. Revenues were about \$298.5 million.
- The District acquired over \$11.7 million in new capital assets during the year. These expenditures were incurred primarily from Measure "G" bond expenditures.
- The District increased its outstanding long-term debt by \$32.8 million. This was primarily due to the Series D bond issuance under Measure "G".
- Grades K-12 average daily attendance (ADA) decreased by 235, or 1.1%.

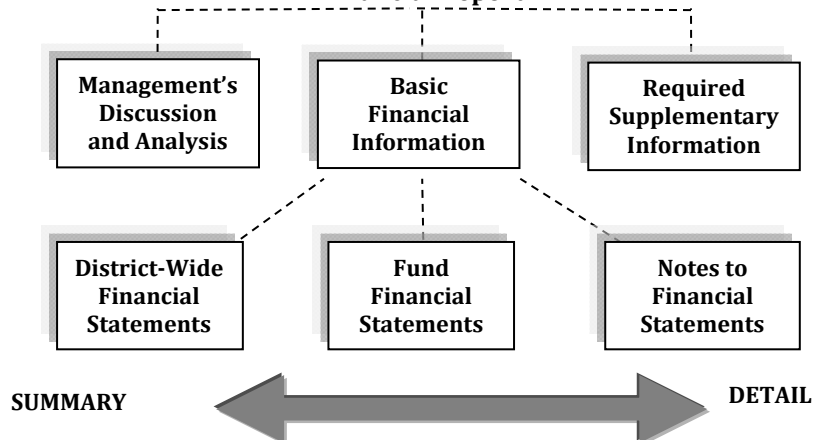
OVERVIEW OF THE FINANCIAL STATEMENTS

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* statements provide 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.

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

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.



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

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

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

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

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

The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

COLTON JOINT UNIFIED SCHOOL DISTRICT

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

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

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.
- 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 liability and workers compensation claims.

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

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

Fund Financial Statements (continued)

- 3) **Fiduciary funds** – The District is the trustee, or fiduciary, for assets that belong to others, such as the student activities funds and the CFD debt service 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 lower on June 30, 2017, than it was the year before – decreasing 10.9% to \$74.8 million (See Table A-1).

Table A-1: Statement of Net Position

	Governmental Activities		Variance
	2017	2016	Increase (Decrease)
Assets			
Current assets	\$ 165,069,357	\$ 132,311,236	\$ 32,758,121
Capital assets	379,217,390	378,602,715	614,675
Total assets	544,286,747	510,913,951	33,372,796
Deferred outflows of resources	84,023,365	64,263,860	19,759,505
Liabilities			
Current liabilities	43,832,778	39,087,756	4,745,022
Long-term liabilities	262,287,345	229,480,020	32,807,325
Net pension liability	235,199,285	196,185,720	39,013,565
Total liabilities	541,319,408	464,753,496	76,565,912
Deferred inflows of resources	12,222,419	26,499,554	(14,277,135)
Net position			
Net investment in capital assets	189,896,232	201,867,061	(11,970,829)
Restricted	53,137,465	42,789,240	10,348,225
Unrestricted	(168,265,412)	(160,731,540)	(7,533,872)
Total net position	\$ 74,768,285	\$ 83,924,761	\$ (9,156,476)

Changes in net position, governmental activities. The District's total revenues increased 3.9% to \$298.5 million (See Table A-2). The increase is due primarily to more operating grants.

The total cost of all programs and services increased 11.4% to \$307.7 million. The District's expenses are predominantly related to educating and caring for students, 78.7%. The purely administrative activities of the District accounted for just 5.6% of total costs. A significant contributor to the increase in costs was instruction-related and services to students.

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

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (continued)

Table A-2: Statement of Activities

	Governmental Activities		Variance Increase (Decrease)
	2017	2016	
Revenues			
Program Revenues:			
Charges for services	\$ 1,659,359	\$ 1,316,888	\$ 342,471
Operating grants and contributions	52,818,610	44,860,944	7,957,666
Capital grants and contributions	-	1,895	(1,895)
General Revenues:			
Federal and state aid not restricted	203,563,391	207,587,192	(4,023,801)
Property taxes	38,808,000	30,865,069	7,942,931
Other general revenues	1,652,167	2,764,813	(1,112,646)
Total Revenues	298,501,527	287,396,801	11,104,726
Expenses			
Instruction-related	201,876,118	178,631,370	23,244,748
Pupil services	40,174,791	36,508,145	3,666,646
Administration	17,107,089	14,997,158	2,109,931
Plant services	30,894,886	27,491,447	3,403,439
All other activities	17,605,119	18,445,008	(839,889)
Total Expenses	307,658,003	276,073,128	31,584,875
Increase (decrease) in net position	\$ (9,156,476)	\$ 11,323,673	\$ (20,480,149)

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 \$116.1 million, which is above last year's ending fund balance of \$90.3 million. The primary cause of the increased fund balance is the \$24.6 million Series D bond issuance in the Building Fund under Measure "G".

Table A-3: The District's Fund Balances

Fund	Fund Balances				
	July 1, 2016	Revenues	Expenditures	Other Sources and (Uses)	June 30, 2017
General Fund	\$ 41,083,727	\$ 263,397,953	\$ 257,159,592	\$ (2,561,361)	\$ 44,760,727
Adult Education Fund	-	1,077,611	505,396	-	572,215
Child Development Fund	226,209	2,679,211	2,683,417	-	222,003
Cafeteria Fund	1,657,540	12,423,596	13,090,389	304,679	1,295,426
Deferred Maintenance Fund	-	1,290,751	1,880,844	-	(590,093)
Special Reserve Fund (Other Than Capital Outlay)	1,705,852	-	-	-	1,705,852
Building Fund	10,580,011	253,819	6,338,601	24,645,000	29,140,229
Capital Facilities Fund	14,160,355	1,236,643	1,686,798	2,256,682	15,966,882
County School Facilities Fund	4,010	21	3,051	-	980
Special Reserve Fund (Capital Outlay)	-	14,717	-	438,097	452,814
Capital Outlay Fund for Blended Component Units	4,854,137	4,829	3,992,094	-	866,872
Bond Interest and Redemption Fund	16,036,655	14,776,732	11,806,662	2,691,499	21,698,224
	\$ 90,308,496	\$ 297,155,883	\$ 299,146,844	\$ 27,774,596	\$ 116,092,131

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

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (continued)

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 \$10.1 million primarily to reflect federal and state budget actions.
- Salaries and benefits costs – increased \$4.3 million attributable to budgeting the STRS on behalf which is offset by matching other state income.
- Other non-personnel expenses – decreased \$2.9 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 \$3.4 million, the actual results for the year show that revenues exceeded expenditures by roughly \$7.5 million. Actual revenues were \$2.7 million less than anticipated, and expenditures were \$6.8 million less than budgeted. That amount consists primarily of restricted categorical program dollars that were not spent as of June 30, 2017, that will be carried over into the 2017-18 budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2016-17 the District had invested \$11.7 million in new capital assets, related to various modernization projects. (More detailed information about capital assets can be found in Note 6 to the financial statements). Total depreciation expense for the year was \$11.1 million.

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

	Governmental Activities		Variance Increase (Decrease)
	2017	2016	
Land	\$ 39,264,110	\$ 39,264,110	\$ -
Improvement of sites	168,495,353	172,142,284	(3,646,931)
Buildings	126,772,858	117,867,128	8,905,730
Equipment	4,714,622	4,471,572	243,050
Construction in progress	39,970,447	44,857,621	(4,887,174)
Total	\$ 379,217,390	\$ 378,602,715	\$ 614,675

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

CAPITAL ASSET AND DEBT ADMINISTRATION (continued)

Long-Term Debt

At year-end the District had \$262.3 million in general obligation bonds, capital and financing leases, and post employment benefits - an increase of 14.3% 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 Increase (Decrease)
	2017	2016	
General obligation bonds	\$ 240,095,048	\$ 208,780,007	\$ 31,315,041
Financing lease	2,313,565	2,853,528	(539,963)
Capital leases	-	15,000	(15,000)
Compensated absences	1,589,674	1,789,048	(199,374)
Other postemployment benefits	18,289,058	16,042,437	2,246,621
Total	\$ 262,287,345	\$ 229,480,020	\$ 32,807,325

FACTORS BEARING ON THE DISTRICT'S FUTURE

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

Proposition 98

Overview

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

Proposition 98 Establishes Minimum Spending Level

Proposition 98 establishes a minimum spending requirement commonly called the minimum guarantee. The minimum guarantee is determined by three main formulas (known as tests) and various inputs, including General Fund revenue, per capita personal income, and K-12 attendance. The state can spend at the minimum guarantee or any level above it. Spending above the minimum guarantee one year typically becomes part of the base for calculating the minimum guarantee the next year. If the minimum guarantee increases after budget enactment due to updated inputs, the state owes a "settle-up" obligation. In some years, the state also creates or pays "maintenance factor." Maintenance factor is created when General Fund revenue is weak relative to per capita personal income and is paid when General Fund revenue is stronger.

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

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

Proposition 98 (continued)

Overview (continued)

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

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

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

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

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

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

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

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

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

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

Proposition 98 (continued)

K-12 Education

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

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

Package Includes Mix of Ongoing and One-Time Spending

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

General Purpose Funding

Accelerates Implementation of LCFF for School Districts and Charter Schools

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

Funds One-Time Discretionary Grants

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

Other Changes

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

The budget provides \$423 million Proposition 98 funding for energy-efficiency projects at schools and community colleges. This reflects the fifth and final year of Proposition 39 (2012) funding. Trailer legislation, however, extends the date for schools to use this funding by one year, to June 30, 2019, and sets rules for how any remaining uncommitted funds are to be used. The first \$75 million in remaining funds is earmarked for school districts and COEs to replace or retrofit school buses. Priority is given to LEAs having the oldest buses, serving disadvantaged communities, or serving high shares of low-income students. The next \$100 million is earmarked for a competitive grant program to provide K-12 LEAs with low- and no-interest loans for energy projects. Any funding still remaining is to be distributed as grants to K-12 LEAs according to Proposition 39 rules. The trailer legislation also extends the Proposition 39 energy-efficiency programs for K-12 and CCC LEAs beginning in 2018-19, contingent upon funds being made available through the annual budget act or other statute.

COLTON JOINT UNIFIED SCHOOL DISTRICT

Management's Discussion and Analysis (Unaudited)

For the Fiscal Year Ended June 30, 2017

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

Proposition 98 (continued)

Other Changes (continued)

Augments After School Education and Safety (ASES) Program

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

School Facilities

Provides First Installment of Proposition 51 Bond Funding for School Facilities

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

Establishes New Audit Rules

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

All of these factors were considered in preparing the Colton Joint Unified School District budget for the 2017-18 fiscal year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Dr. Frank Miranda, Assistant Superintendent, Business Services Division, at Colton Joint Unified School District, 1212 Valencia Drive, Colton, California, 92324 or e-mail at Frank_Miranda@cjusd.net.

COLTON JOINT UNIFIED SCHOOL DISTRICT
Statement of Net Position
June 30, 2017

	Total Governmental Activities
ASSETS	
Cash	\$ 153,920,392
Investments	995,267
Accounts receivable	9,710,098
Inventories	344,528
Prepaid expenses	99,072
Non-depreciable assets	79,234,557
Depreciable assets	438,856,046
Less accumulated depreciation	<u>(138,873,213)</u>
Total assets	<u>544,286,747</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred amounts on refunding	6,271,568
Deferred outflows from pensions	<u>77,751,797</u>
Total deferred outflows of resources	<u>84,023,365</u>
LIABILITIES	
Accounts payable	43,832,778
Long-term liabilities:	
Portion due or payable within one year	7,496,261
Portion due or payable after one year	254,791,084
Net pension liability	<u>235,199,285</u>
Total liabilities	<u>541,319,408</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows from pensions	<u>12,222,419</u>
NET POSITION	
Net investment in capital assets	189,896,232
Restricted for:	
Capital projects	18,126,528
Debt service	21,679,615
Educational programs	13,331,322
Unrestricted	<u>(168,265,412)</u>
Total net position	<u>\$ 74,768,285</u>

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

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Governmental Activities				
Instructional Services:				
Instruction	\$ 175,564,075	\$ 1,414	\$ 26,725,439	\$ (148,837,222)
Instruction-Related Services:				
Supervision of instruction	7,383,114	-	2,716,885	(4,666,229)
Instructional library, media and technology	2,588,623	-	214,888	(2,373,735)
School site administration	16,340,306	-	1,155,819	(15,184,487)
Pupil Support Services:				
Home-to-school transportation	5,259,702	-	-	(5,259,702)
Food services	14,419,146	538,771	11,851,643	(2,028,732)
All other pupil services	20,495,943	-	6,000,716	(14,495,227)
General Administration Services:				
Data processing services	6,526,537	-	-	(6,526,537)
Other general administration	10,580,552	3,219	1,174,985	(9,402,348)
Plant Services	30,894,886	520,664	1,232,087	(29,142,135)
Ancillary Services	2,441,922	-	56,961	(2,384,961)
Community Services	148,987	-	-	(148,987)
Enterprise Activities	987,408	-	-	(987,408)
Interest on Long-term Debt	10,404,760	-	-	(10,404,760)
Other Outgo	3,622,042	595,291	1,689,187	(1,337,564)
Total Governmental Activities	<u>\$ 307,658,003</u>	<u>\$ 1,659,359</u>	<u>\$ 52,818,610</u>	<u>(253,180,034)</u>
General Revenues:				
Property taxes				38,808,000
Federal and state aid not restricted to specific purpose				203,563,391
Interest and investment earnings				413,954
Miscellaneous				<u>1,238,213</u>
Total general revenues				<u>244,023,558</u>
Change in net position				(9,156,476)
Net position - July 1, 2016				<u>83,924,761</u>
Net position - June 30, 2017				<u>\$ 74,768,285</u>

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

	General Fund	Building Fund	Capital Facilities Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS						
Cash	\$ 64,529,184	\$ 30,559,009	\$ 15,946,055	\$ 21,698,224	\$ 3,468,336	\$ 136,200,808
Investments	128,395	-	-	-	866,872	995,267
Accounts receivable	7,357,251	99,596	59,471	-	2,089,704	9,606,022
Due from other funds	1,062,645	-	398,641	-	28,404	1,489,690
Inventories	276,854	-	-	-	67,674	344,528
Prepaid expenditures	99,072	-	-	-	-	99,072
Total Assets	<u>\$ 73,453,401</u>	<u>\$ 30,658,605</u>	<u>\$ 16,404,167</u>	<u>\$ 21,698,224</u>	<u>\$ 6,520,990</u>	<u>\$ 148,735,387</u>
LIABILITIES AND FUND BALANCES						
Liabilities						
Accounts payable	\$ 28,542,049	\$ 1,516,442	\$ 436,634	\$ -	\$ 334,651	\$ 30,829,776
Due to other funds	740,718	1,934	651	-	1,070,177	1,813,480
Total Liabilities	<u>29,282,767</u>	<u>1,518,376</u>	<u>437,285</u>	<u>-</u>	<u>1,404,828</u>	<u>32,643,256</u>
Fund Balances						
Nonspendable	425,926	-	-	-	92,674	518,600
Restricted	11,245,114	29,140,229	15,966,882	21,698,224	5,023,488	83,073,937
Assigned	19,042,670	-	-	-	-	19,042,670
Unassigned	13,456,924	-	-	-	-	13,456,924
Total Fund Balances	<u>44,170,634</u>	<u>29,140,229</u>	<u>15,966,882</u>	<u>21,698,224</u>	<u>5,116,162</u>	<u>116,092,131</u>
Total Liabilities and Fund Balances	<u>\$ 73,453,401</u>	<u>\$ 30,658,605</u>	<u>\$ 16,404,167</u>	<u>\$ 21,698,224</u>	<u>\$ 6,520,990</u>	<u>\$ 148,735,387</u>

COLTON JOINT UNIFIED SCHOOL DISTRICT

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

Total fund balances - governmental funds \$ 116,092,131

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:	518,090,603	
Accumulated depreciation:	<u>(138,873,213)</u>	
Net:		379,217,390

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:

6,271,568

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:

(2,828,840)

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	240,095,048	
Financing lease	2,313,565	
Compensated absences	1,589,674	
Other postemployment benefits payable	<u>18,289,058</u>	
Total		(262,287,345)

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.

(235,199,285)

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

Deferred outflows of resources relating to pensions	77,751,797	
Deferred inflows of resources relating to pensions	<u>(12,222,419)</u>	
Net:		65,529,378

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:

7,973,288

Total net position - governmental activities

\$ 74,768,285

COLTON JOINT UNIFIED SCHOOL DISTRICT

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

	General Fund	Building Fund	Capital Facilities Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES						
LCFF sources	\$ 217,116,251	\$ -	\$ -	\$ -	\$ -	\$ 217,116,251
Federal sources	12,294,020	-	-	-	12,128,152	24,422,172
Other state sources	23,808,116	-	-	104,162	3,454,542	27,366,820
Other local sources	11,470,317	253,819	1,236,643	14,672,570	617,291	28,250,640
Total Revenues	264,688,704	253,819	1,236,643	14,776,732	16,199,985	297,155,883
EXPENDITURES						
Current:						
Instructional Services:						
Instruction	157,793,021	-	-	-	2,030,154	159,823,175
Instruction-Related Services:						
Supervision of instruction	7,162,878	-	-	-	81,582	7,244,460
Instructional library, media and technology	2,359,412	-	-	-	-	2,359,412
School site administration	14,719,833	-	-	-	430,668	15,150,501
Pupil Support Services:						
Home-to-school transportation	4,997,466	-	-	-	-	4,997,466
Food services	5,543	-	-	-	13,054,793	13,060,336
All other pupil services	19,191,009	-	-	-	212,913	19,403,922
Ancillary Services	1,930,934	-	-	-	-	1,930,934
Community Services	148,987	-	-	-	-	148,987
Enterprise activities	1,300,000	-	-	-	-	1,300,000
General Administration Services:						
Data processing services	6,362,462	-	-	-	-	6,362,462
Other general administration	10,277,545	-	71,763	-	-	10,349,308
Plant Services	28,418,631	-	395,458	-	4,208,991	33,023,080
Transfers of Indirect Costs	(136,089)	-	-	-	136,089	-
Capital Outlay	1,133,480	6,049,350	1,219,577	-	104,157	8,506,564
Intergovernmental Transfers	2,760,601	-	-	-	-	2,760,601
Debt Service:						
Issuance costs	-	289,251	-	572,190	-	861,441
Principal	539,963	-	-	4,112,186	15,000	4,667,149
Interest	74,760	-	-	7,122,286	-	7,197,046
Total Expenditures	259,040,436	6,338,601	1,686,798	11,806,662	20,274,347	299,146,844
Excess (Deficiency) of Revenues Over (Under) Expenditures	5,648,268	(6,084,782)	(450,155)	2,970,070	(4,074,362)	(1,990,961)
OTHER FINANCING SOURCES (USES)						
Interfund transfers in	-	-	2,256,682	-	304,679	2,561,361
Interfund transfers out	(2,561,361)	-	-	-	-	(2,561,361)
Proceeds from refunding bonds	-	-	-	51,540,000	-	51,540,000
Proceeds from issuance of bonds	-	24,645,000	-	-	-	24,645,000
Payment to escrow agent for defeased debt	-	-	-	(58,754,325)	-	(58,754,325)
Premiums on issuance of debt	-	-	-	9,905,824	-	9,905,824
All other financing uses	-	-	-	-	438,097	438,097
Total Other Financing Sources and Uses	(2,561,361)	24,645,000	2,256,682	2,691,499	742,776	27,774,596
Net Change in Fund Balances	3,086,907	18,560,218	1,806,527	5,661,569	(3,331,586)	25,783,635
Fund Balances, July 1, 2016	41,083,727	10,580,011	14,160,355	16,036,655	8,447,748	90,308,496
Fund Balances, June 30, 2017	\$ 44,170,634	\$ 29,140,229	\$ 15,966,882	\$ 21,698,224	\$ 5,116,162	\$ 116,092,131

COLTON JOINT UNIFIED SCHOOL DISTRICT

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

Total net change in fund balances - governmental funds \$ 25,783,635

Amounts reported for governmental *activities* in the statement of activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is:

Expenditures for capital outlay	11,750,465	
Depreciation expense	<u>(11,133,642)</u>	
Net:		616,823

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: (2,148)

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 governmental funds these amounts are recognized as an expenditure. However, in the statement of activities, these amounts are amortized over the life of the refunded debt. The difference between current year amounts and the current year amortization is: 5,252,149

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 reduction of liabilities. Expenditures for repayment of the principal portion of long-term debt were: 56,302,149

In governmental funds, postemployment benefits costs are recognized as expenditures in the period they are paid. In the government-wide statements, postemployment benefits costs are recognized in the period that they are incurred. The increase in the net OPEB liability at the end of the period was: (2,246,621)

In governmental funds, interest on long-term debt is recognized in the period that 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: (369,130)

In governmental funds, proceeds from debt are recognized as other financing sources. In the government-wide statements, proceeds from debt are reported as an increase to liabilities. Amounts recognized in governmental funds as proceeds from debt, including premiums, were: (86,090,824)

In governmental funds, accreted interest 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. The difference between accreted interest accrued during the year and accreted interest paid is: (3,601,621)

In governmental funds, if debt is issued at a premium, 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 is: 2,630,218

In the statement of activities, certain operating expenses - such as compensated absences and early retirement incentives, for example, are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). The difference between compensated absences paid and earned was: 199,374

In governmental 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 pension costs and actual employer contributions was: (10,229,075)

The internal service fund is used by management to charge the cost of self-insurance activities. The net revenue (expense) of the internal service fund is reported with governmental activities. 2,598,595

Change in net position of governmental activities \$ (9,156,476)

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

	Governmental Activities: <u>Internal Service Fund</u>
ASSETS	
Cash	\$ 17,719,584
Receivables from other funds	352,203
Other receivables	<u>104,076</u>
Total assets	<u>18,175,863</u>
LIABILITIES	
Accounts payable and accrued liabilities	152,840
Payables to other funds	28,413
Non-current liabilities:	
Estimated claims and IBNR liability	<u>10,021,322</u>
Total liabilities	<u>10,202,575</u>
NET POSITION	
Unrestricted	<u><u>\$ 7,973,288</u></u>

COLTON JOINT UNIFIED SCHOOL DISTRICT*Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Fund
For the Fiscal Year Ended June 30, 2017*

	Governmental Activities: <u>Internal Service Fund</u>
OPERATING REVENUES	
Charges to other funds	\$ 6,032,240
Other local revenues	<u>365,939</u>
Total operating revenues	<u>6,398,179</u>
OPERATING EXPENSES	
Payroll costs	1,915,151
Materials and supplies	59,448
Services and other operating expenses	<u>1,954,227</u>
Total operating expenses	<u>3,928,826</u>
Operating income (loss)	<u>2,469,353</u>
NON-OPERATING REVENUES	
Interest income	<u>129,242</u>
Total non-operating revenues	<u>129,242</u>
Change in net position	2,598,595
Net position, July 1, 2016	<u>5,374,693</u>
Net position, June 30, 2017	<u><u>\$ 7,973,288</u></u>

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

	Governmental Activities Internal Service Fund
<i>CASH FLOWS FROM OPERATING ACTIVITIES</i>	
Received from in-district premiums	\$ 7,136,927
Payments to employees and fringe benefits	(771,081)
Payments to vendors and suppliers	(2,069,137)
Payments on insurance claims	(1,661,295)
Other receipts (payments)	287,342
Net cash provided (used) by operating activities	<u>2,922,756</u>
<i>CASH FLOWS FROM INVESTING ACTIVITIES</i>	
Investment income	<u>129,242</u>
Net increase (decrease) in cash and cash equivalents	3,051,998
Cash and cash equivalents, July 1, 2016	14,667,586
Cash and cash equivalents, June 30, 2017	<u>\$ 17,719,584</u>
<i>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</i>	
Operating income (loss)	<u>\$ 2,469,353</u>
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Changes in assets, liabilities, and deferred outflows of resources:	
Receivables, net	(78,597)
Due from other funds	1,104,688
Accounts payable and accrued liabilities	(55,463)
Due to other funds	(517,225)
Total adjustments	<u>453,403</u>
Net cash provided (used) by operating activities	<u>\$ 2,922,756</u>

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

	Agency Funds		
	Debt Service Fund for Blended Component Units	Student Body Funds	Total
Assets			
Cash	\$ 3,541,055	\$ 778,173	\$ 4,319,228
Investments	832,938	-	832,938
Other assets	-	16,392	16,392
Inventories	-	44,633	44,633
Total Assets	\$ 4,373,993	\$ 839,198	\$ 5,213,191
Liabilities			
Due to bondholders	\$ 4,373,993	\$ -	\$ 4,373,993
Due to student groups	-	839,198	839,198
Total Liabilities	\$ 4,373,993	\$ 839,198	\$ 5,213,191

COLTON JOINT UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Colton Joint 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 Colton Joint Unified School District, this includes general operations, food service, and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District, in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete.

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

The Colton Joint Unified School District Facilities Corporation (the Corporation) financial activity is presented in the financial statements in the County School Facilities Fund. Financing leases and certificates of participation executed and delivered by the Corporation are included as long-term liabilities in the government-wide financial statements. Individually prepared financial statements are not prepared for the Corporation.

The Colton Joint Unified School District Community Facilities Districts (CFDs No. 2 and No. 3) financial activity is presented in the financial statements as the Capital Projects Fund for Blended Component Units and in the Fiduciary Funds Statement as the Debt Service Fund for Special Tax Bonds. Special Tax Bonds issued by the CFDs are not included in the long-term obligations of the *Statement of Net Position* as they are not obligations of the District. Individually prepared financial statements are not prepared for each of the CFDs.

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.

COLTON JOINT UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

1. Basis of Presentation (continued)

Government-Wide Financial Statements (continued)

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 Deferred Maintenance Fund and Special Reserve Fund for Other Than Capital Outlay which do not currently meet the definition of a special revenue fund as they are not primarily composed of restricted or committed revenue sources. Because these funds do not meet the definition of a special revenue fund under GASB 54, the activity in these funds is being reported within the General Fund.

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.

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.

COLTON JOINT UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

1. Basis of Presentation (continued)

Non-Major Governmental Funds

The District reports the following non-major governmental funds:

Special Revenue Funds:

Adult Education Fund: This fund is used to account for resources restricted for adult education programs maintained by the District.

Child Development Fund: This fund is used to account for resources committed to child development programs maintained by the District.

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

Capital Projects Funds:

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 capital activity of the Community Facilities Districts.

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 liability insurance and a workers' compensation program that is accounted for in the self-insurance service fund.

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.

COLTON JOINT UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Fiduciary Funds (continued)

The District maintains the following fiduciary funds:

Debt Service Fund for Special Tax Bonds: This fund is used to account for the accumulation of resources for, and the repayment, of Community Facility District bonds, interest and related costs.

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.

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.

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.

COLTON JOINT UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Budgetary Data

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

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

D. Encumbrances

Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid. All encumbrances are liquidated as of June 30.

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

1. Cash and Cash Equivalents

The District considers cash and cash equivalents to be cash on hand and demand deposits. In addition, because the Treasury Pool is sufficiently liquid to permit withdrawal of cash at any time without prior notice or penalty, equity in the pool is also deemed to be a cash equivalent.

2. Inventories and Prepaid Items

Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

3. Capital Assets

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

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

<u>Description</u>	<u>Estimated Lives</u>
Buildings and Improvements	5-50 years
Furniture and Equipment	2-15 years

COLTON JOINT UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

4. Unearned Revenue

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

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

5. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has two items that qualify for reporting in this category. The first item is related to its pension plans as more fully described in the footnote entitled "Pension Plans". The second is deferred amounts on refunding, which resulted from the difference in the carrying value of refunded debt and its reacquisition price. This amount is shown as deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. The District has one item that qualifies for reporting in this category. That item is to recognize the District's proportionate share of the deferred inflows of resources related to its pension plans as more fully described in the footnote entitled "Pension Plans".

6. Compensated Absences

The liability for compensated absences reported in the government-wide statements consists of unpaid, accumulated annual and vacation leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

7. 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.

COLTON JOINT UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

8. Fund Balances

The fund balance for governmental funds is reported in classifications based on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

Nonspendable: Fund balance is reported as nonspendable when the resources cannot be spent because they are either in a nonspendable form or legally or contractually required to be maintained intact. Resources in nonspendable form include inventories and prepaid assets.

Restricted: Fund balance is reported as restricted when the constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provision or by enabling legislation.

Committed: The District's highest decision-making level of authority rests with the District's Board. Fund balance is reported as committed when the Board passes a resolution that places specified constraints on how resources may be used. The Board can modify or rescind a commitment of resources through passage of a new resolution.

Assigned: Resources that are constrained by the District's intent to use them for a specific purpose, but are neither restricted nor committed, are reported as assigned fund balance. Intent may be expressed by either the Board, committees (such as budget or finance), or officials to which the Board has delegated authority.

Unassigned: Unassigned fund balance represents fund balance that has not been restricted, committed, or assigned and may be utilized by the District for any purpose. When expenditures are incurred, and both restricted and unrestricted resources are available, it is the District's policy to use restricted resources first, then unrestricted resources in the order of committed, assigned, and then unassigned, as they are needed.

9. Net Position

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

- **Net investment in capital assets** - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. 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.

COLTON JOINT UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

9. Net Position (continued)

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

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

F. Minimum Fund Balance Policy

The District has not adopted a formal minimum fund balance policy, as recommended by GASB Statement No. 54; however, the District follows the guidelines recommended in the Criteria and Standards of Assembly Bill (AB) 1200, which recommend a Reserve for Economic Uncertainties consisting of unassigned amounts equal to no less than three percent of total General Fund expenditures and other financing uses.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed unless the governing board has provided otherwise in its commitment or assignment actions.

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.

COLTON JOINT UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. New GASB Pronouncements

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

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

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

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

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

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

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

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

COLTON JOINT UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. New GASB Pronouncements (continued)

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

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

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

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

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

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

COLTON JOINT UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 2 – CASH AND INVESTMENTS

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

	Governmental Activities			Fiduciary Funds
	Governmental Funds	Proprietary Fund	Total	
Pooled Funds:				
Cash in county treasury	\$ 135,840,339	\$ 17,644,584	\$ 153,484,923	\$ 3,541,055
Deposits:				
Cash on hand and in banks	285,469	-	285,469	778,173
Cash in revolving fund	75,000	-	75,000	-
Cash with fiscal agent	-	75,000	75,000	-
Total Deposits	360,469	75,000	435,469	778,173
Total Cash	\$ 136,200,808	\$ 17,719,584	\$ 153,920,392	\$ 4,319,228
Investments:				
U.S. Bank - Money Market	\$ 866,872	\$ -	\$ 866,872	\$ 832,938
Local Agency Investment Fund (LAIF)	128,395	-	128,395	-
Total Investments	\$ 995,267	\$ -	\$ 995,267	\$ 832,938

Pooled Funds

In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the County Treasury. The County pools and invests the cash. These pooled funds are carried at cost which approximates fair value. Interest earned is deposited annually to participating funds. Any investment losses are proportionately shared by all funds in the pool.

Because the District's deposits are maintained in a recognized pooled investment fund under the care of a third party and the District's share of the pool does not consist of specific, identifiable investment securities owned by the District, no disclosure of the individual deposits and investments or related custodial credit risk classifications is required.

In accordance with applicable state laws, the County Treasurer may invest in derivative securities with the State of California. However, at June 30, 2017, the County Treasurer has represented that the Pooled Investment Fund contained no derivatives or other investments with similar risk profiles.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. Cash balances held in banks are insured up to \$250,000 by the Federal Depository Insurance Corporation (FDIC) and are collateralized by the respective financial institutions. In addition, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits.

COLTON JOINT UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 2 – CASH AND INVESTMENTS (continued)

Custodial Credit Risk – Deposits (continued)

As of June 30, 2017, \$1,047,998 of the District's bank balance was exposed to custodial credit risk because it was uninsured. However, all of the balance was collateralized with securities held by the pledging financial institution's trust department or agency, but not in the name of the District.

Investments - Interest Rate Risk

The District's investment policy limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District's investment policy limits investment purchases to investments with a term not to exceed three years. Investments purchased with maturity terms greater than three years require approval by the Board of Education. Investments purchased with maturities greater than one year require written approval by the Superintendent prior to commitment.

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

	Fair Value	Maturity	
		Less Than One Year	One Year Through Five Years
Investment maturities:			
U.S. Bank - Money Market	\$ 1,699,810	\$ 1,699,810	\$ -
Local Agency Investment Fund (LAIF)	128,395	128,395	-
Total Investments	\$ 1,828,205	\$ 1,828,205	\$ -

Investments - Credit Risk

The District's investment policy limits investment choices to obligations of local, state and federal agencies, commercial paper, certificates of deposit, repurchase agreements, corporate notes, banker acceptances, and other securities allowed by State Government Code Section 53600. At June 30, 2017, all investments represented governmental securities which were issued, registered and held by the District's agent in the District's name.

Investments - Concentration of Credit Risk

The District does not place limits on the amount it may invest in any one issuer. At June 30, 2017, the District had the following investment that represented more than five percent of the District's net investments.

U.S. Bank - Money Market	93%
Local Agency Investment Fund	7%

COLTON JOINT UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
 June 30, 2017

NOTE 3 – ACCOUNTS RECEIVABLE

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

	General Fund	Building Fund	Capital Facilities Fund	Non-Major Governmental Funds	Total Governmental Funds	Proprietary Fund
Federal Government:						
Categorical aid programs	\$ 4,485,910	\$ -	\$ -	\$ 1,694,627	\$ 6,180,537	\$ -
State Government:						
Lottery	856,877	-	-	-	856,877	-
Special education	1,201,201	-	-	-	1,201,201	-
Categorical aid programs	153,750	-	-	384,886	538,636	-
Local:						
Interest	159,571	99,596	42,440	10,191	311,798	48,871
Special education	499,942	-	17,031	-	516,973	55,205
Total	\$ 7,357,251	\$ 99,596	\$ 59,471	\$ 2,089,704	\$ 9,606,022	\$ 104,076

NOTE 4 – INTERFUND TRANSACTIONS

A. Balances Due To/From Other Funds

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

	Due From Other Funds					Total
	General Fund	Capital Facilities Fund	Non-Major Governmental Funds	Total Governmental Funds	Proprietary Fund	
General Fund	\$ -	\$ 396,690	\$ 1,890	\$ 398,580	\$ 342,138	\$ 740,718
Building Fund	1,554	-	-	1,554	380	1,934
Capital Facilities Fund	-	-	-	-	651	651
Non-Major Governmental Funds	1,034,955	-	26,188	1,061,143	9,034	1,070,177
Proprietary Fund	26,136	1,951	326	28,413	-	28,413
Total	\$ 1,062,645	\$ 398,641	\$ 28,404	\$ 1,489,690	\$ 352,203	\$ 1,841,893

General Fund due from Building Fund for benefit and liability transfer.	\$ 1,554
General Fund due from Self-Insurance Fund for benefit liability transfer.	26,136
General Fund due from Cafeteria Fund for benefit and liability transfer.	904,619
General Fund due from Other Non-Major Funds for miscellaneous.	130,336
Capital Facilities Fund due from General Fund for the Solar Project and transfer of RDA funds.	396,690
Capital Facilities Fund due from Self-Insurance Fund for insurance claim reimbursements.	1,951
Self-Insurance Fund due from General Fund for worker's compensation.	342,138
Self-Insurance Fund due from Building Fund for worker's compensation.	380
Self-Insurance Fund due from Capital Facilities Fund for insurance claim reimbursements.	651
Self-Insurance Fund due from other Non-Major Funds for worker's compensation.	9,034
Other Non-Major Funds due from total	28,404
Total	\$ 1,841,893

COLTON JOINT UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2017

NOTE 4 – INTERFUND TRANSACTIONS (continued)

B. Transfers To/From Other Funds

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

General Fund transfer to Cafeteria Fund for lunch debt and final CDE payment.	\$ 304,679
General Fund transfer to Capital Facilities Fund for a transfer of RDA funds.	<u>2,256,682</u>
Total	<u>\$ 2,561,361</u>

NOTE 5 – FUND BALANCES

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

	General Fund	Building Fund	Capital Facilities Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total
Nonspendable:						
Revolving cash	\$ 50,000	\$ -	\$ -	\$ -	\$ 25,000	\$ 75,000
Stores inventories	276,854	-	-	-	67,674	344,528
Prepaid expenditures	99,072	-	-	-	-	99,072
Total Nonspendable	<u>425,926</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>92,674</u>	<u>518,600</u>
Restricted:						
Categorical programs	11,245,114	-	-	-	1,996,970	13,242,084
Capital projects	-	29,140,229	15,966,882	-	3,026,518	48,133,629
Debt service	-	-	-	21,698,224	-	21,698,224
Total Restricted	<u>11,245,114</u>	<u>29,140,229</u>	<u>15,966,882</u>	<u>21,698,224</u>	<u>5,023,488</u>	<u>83,073,937</u>
Assigned:						
Professional Development Center	2,000,000	-	-	-	-	2,000,000
LCAP	1,000,000	-	-	-	-	1,000,000
Retirement estimates	3,200,000	-	-	-	-	3,200,000
2017-18 deficit spending	11,258,427	-	-	-	-	11,258,427
Other assignments	174,336	-	-	-	-	174,336
Deferred maintenance program	1,409,907	-	-	-	-	1,409,907
Total Assigned	<u>19,042,670</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,042,670</u>
Unassigned:						
Reserve for economic uncertainties	7,851,000	-	-	-	-	7,851,000
Remaining unassigned balances	5,605,924	-	-	-	-	5,605,924
Total Unassigned	<u>13,456,924</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,456,924</u>
Total	<u>\$ 44,170,634</u>	<u>\$ 29,140,229</u>	<u>\$ 15,966,882</u>	<u>\$ 21,698,224</u>	<u>\$ 5,116,162</u>	<u>\$ 116,092,131</u>

COLTON JOINT UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
 June 30, 2017

NOTE 6 – CAPITAL ASSETS AND DEPRECIATION

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

	Balance, July 1, 2016	Additions	Retirements	Balance, June 30, 2017
Capital assets not being depreciated:				
Land	\$ 39,264,110	\$ -	\$ -	\$ 39,264,110
Construction in progress	44,857,621	10,368,308	15,255,482	39,970,447
Total capital assets not being depreciated	<u>84,121,731</u>	<u>10,368,308</u>	<u>15,255,482</u>	<u>79,234,557</u>
Capital assets being depreciated:				
Improvement of sites	194,796,660	936,804	-	195,733,464
Buildings	205,249,373	14,733,468	-	219,982,841
Equipment	22,401,203	967,367	228,829	23,139,741
Total capital assets being depreciated	<u>422,447,236</u>	<u>16,637,639</u>	<u>228,829</u>	<u>438,856,046</u>
Accumulated depreciation for:				
Improvement of sites	(22,654,376)	(4,583,735)	-	(27,238,111)
Buildings	(87,382,245)	(5,827,738)	-	(93,209,983)
Equipment	(17,929,631)	(722,169)	(226,681)	(18,425,119)
Total accumulated depreciation	<u>(127,966,252)</u>	<u>(11,133,642)</u>	<u>(226,681)</u>	<u>(138,873,213)</u>
Total capital assets being depreciated, net	<u>294,480,984</u>	<u>5,503,997</u>	<u>2,148</u>	<u>299,982,833</u>
Governmental activity capital assets, net	<u>\$ 378,602,715</u>	<u>\$ 15,872,305</u>	<u>\$ 15,257,630</u>	<u>\$ 379,217,390</u>

Depreciation expense was allocated to the following functions in the Statement of Activities:

Instruction	\$ 9,018,251
School Site Administration	445,345
Food Services	1,002,028
All Other Pupil Services	222,673
Ancillary Services	445,345
Total	<u>\$ 11,133,642</u>

NOTE 7 – GENERAL LONG-TERM DEBT

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

	Balance, July 1, 2016	Additions	Deductions	Balance, June 30, 2017	Amount Due Within One Year
General Obligation Bonds:					
Principal repayments	\$ 178,332,015	\$ 76,185,000	\$ 55,747,186	\$ 198,769,829	\$ 5,192,363
Accreted interest component	19,478,733	4,049,435	447,814	23,080,354	607,637
Unamortized issuance premium	10,969,259	9,905,824	2,630,218	18,244,865	1,141,347
Total - Bonds	<u>208,780,007</u>	<u>90,140,259</u>	<u>58,825,218</u>	<u>240,095,048</u>	<u>6,941,347</u>
Financing Lease	2,853,528	-	539,963	2,313,565	554,914
Capital Leases	15,000	-	15,000	-	-
Compensated Absences	1,789,048	-	199,374	1,589,674	-
Other Postemployment Benefits	16,042,437	2,246,621	-	18,289,058	-
Totals	<u>\$ 229,480,020</u>	<u>\$ 92,386,880</u>	<u>\$ 59,579,555</u>	<u>\$ 262,287,345</u>	<u>\$ 7,496,261</u>

COLTON JOINT UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

Payments on the general obligation bonds are made by the Bond Interest and Redemption Fund with local tax collections. Payments for the 2012 Lease Refinancing are made from the General Fund. Capital lease payments are made from the Child Development Fund. The other postemployment benefits and accumulated vacation will be paid by the fund for which the employee worked.

A. General Obligation Bonds

The District has issued general obligation bonds under different voter-approved measures, as described below. Bonds are payable solely from *ad valorem* taxes to be levied within the District pursuant to the California Constitution and other state law. The Board of Supervisors of the County is empowered and is obligated to levy *ad valorem* taxes upon all property subject to taxation by the District, without limitation as to rate or amount (except as to certain personal property which is taxable at limited rates), for the payment of principal of and interest on the Bonds.

Election of 2001 (Measure B)

The District authorized bonds at a regularly scheduled election of the registered voters of the District held on September 21, 2001, at which more than two-thirds of the persons voted to authorize the issuance and sale of \$102 million of general obligation bonds of the District. The bonds were issued to raise money to be used to acquire school sites, construct and repair school facilities and redeem a portion of the District's Series 2001 Certificates of Participation.

Election of 2008 (Measure G)

The District authorized bonds at a regularly scheduled election of the registered voters of the District held on November 4, 2008, at which more than 55% of the voters authorized the issuance and sale of \$225 million of general obligation bonds for the modernization and construction of school facilities within the District.

Prior Refunding Issues

In prior years, the District defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds have not been included in the District's financial statements. At June 30, 2017, all escrow funds have been disbursed, and none of the defeased debt remains outstanding.

Amounts paid to the refunded bond escrow agent in excess of the outstanding debt at the time of refunding are recorded as deferred amounts on refunding on the Statement of Net Position and are amortized to interest expense over the life of the debt. Deferred amounts on refunding of \$6,271,568 remain to be amortized as of June 30, 2017.

2017 Refunding General Obligation Bonds

On August 2, 2016, the District issued \$51,540,000 of General Obligation Refunding Bonds. The bonds bear fixed interest rates ranging between 2.0% and 5.0% with annual maturities from August 1, 2017 through August 1, 2046. The net proceeds of \$58,754,325 (after premiums of \$7,786,515 and issuance costs of \$572,190) were used to prepay a portion of the District's outstanding Election of 2008 General Obligation Bonds, Series A and B.

COLTON JOINT UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
 June 30, 2017

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

A. General Obligation Bonds (continued)

2017 Refunding General Obligation Bonds (continued)

The net proceeds were used to purchase U.S. government securities. Those securities were deposited into an irrevocable trust with an escrow agent to provide for future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased, and the related liability for the bonds has been removed from the District's liabilities. Amounts paid to the escrow agent in excess of the outstanding debt at the time of payment are recorded as deferred amounts on refunding on the statement of net position and are amortized to interest expense over the life of the liability. Deferred amounts on refunding as of June 30, 2017 of \$5,545,208 remain to be amortized for this refunding. As of June 30, 2017, the principal balance outstanding on the defeased debt amounted to \$51,635,000.

The refunding decreased the District's total debt service payments by \$11,212,405. The transaction resulted in an economic gain (difference between the present value of the debt service on the old and the new bonds) of \$8,379,427.

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

Description	Issue Date	Maturity Date	Interest Rate	Original Issue	Balance, July 1, 2016	Additions	Deletions	Balance, June 30, 2017
Election of 2001 (Measure B)								
Series B	7/14/2004	2/1/2029	2.00% - 5.89%	\$ 23,177,726	\$ 1,997,726	\$ -	\$ -	\$ 1,997,726
Series C	1/11/2006	2/1/2038	3.17% - 5.12%	50,122,151	1,140,405	-	-	1,140,405
Election of 2008 (Measure G)								
Series A	10/15/2009	8/1/2034	4.50% - 9.00%	48,999,050	47,057,498	-	45,386,832	1,670,666
Series B	8/31/2010	8/1/2046	5.00%-12.00%	41,938,348	41,871,386	-	6,755,354	35,116,032
Series C	7/7/2011	8/1/2026	5.458%-6.008%	11,900,000	11,900,000	-	-	11,900,000
Series D	8/2/2016	8/1/2044	2.00%-4.00%	24,645,000	-	24,645,000	-	24,645,000
Refunding Bonds								
2012 Ref.	5/31/2012	8/1/2026	2.00%-5.00%	22,190,000	18,140,000	-	1,245,000	16,895,000
2013 Ref.	5/1/2013	8/1/2027	2.00%-5.00%	38,625,000	37,215,000	-	2,360,000	34,855,000
2016 Ref.	2/25/2016	2/1/2036	3.00%-5.00%	19,010,000	19,010,000	-	-	19,010,000
2016 B Ref.	8/2/2016	8/1/2046	2.00%-5.00%	51,540,000	-	51,540,000	-	51,540,000
					<u>\$ 178,332,015</u>	<u>\$ 76,185,000</u>	<u>\$ 55,747,186</u>	<u>\$ 198,769,829</u>
Accreted Interest								
Measure B, Series B				\$ 2,239,368	\$ 285,101	\$ -	\$ -	\$ 2,524,469
Measure B, Series C				1,372,044	205,313	-	-	1,577,357
Measure G, Series A				1,680,464	329,762	403,168	-	1,607,058
Measure G, Series B				14,186,857	3,229,259	44,646	-	17,371,470
					<u>\$ 19,478,733</u>	<u>\$ 4,049,435</u>	<u>\$ 447,814</u>	<u>\$ 23,080,354</u>

COLTON JOINT UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

A. General Obligation Bonds (continued)

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017-18	\$ 5,192,363	\$ 7,379,346	\$ 12,571,709
2018-19	5,693,634	7,393,393	13,087,027
2019-20	5,480,066	7,413,736	12,893,802
2020-21	6,268,821	6,453,556	12,722,377
2021-22	13,842,578	6,345,599	20,188,177
2022-27	44,401,303	28,588,097	72,989,400
2027-32	42,556,471	28,967,659	71,524,130
2032-37	42,987,528	28,187,716	71,175,244
2037-42	16,378,600	65,010,497	81,389,097
2042-47	15,968,465	63,764,009	79,732,474
Total	<u>\$ 198,769,829</u>	<u>\$ 249,503,608</u>	<u>\$ 448,273,437</u>

B. Financing Lease

On April 27, 2012, the District, entered into an amended and restated lease agreement with the Colton Joint Unified School District Facilities Corporation, which entered into an assignment agreement with Alliance Bank of Arizona and caused Alliance Bank of Arizona to issue funds of \$5,271,757. The lease refinancing has a final maturity of June 1, 2021, with an interest rate of 2.75 percent. The net proceeds from the lease were used to refinance the District's outstanding 2001 Certificates of Participation.

The repayment schedule on the lease is as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017-18	\$ 554,914	\$ 59,808	\$ 614,722
2018-19	570,280	44,442	614,722
2019-20	586,071	28,651	614,722
2020-21	602,300	12,422	614,722
Total	<u>\$ 2,313,565</u>	<u>\$ 145,323</u>	<u>\$ 2,458,888</u>

C. Non-Obligatory Debt

Non-obligatory debt relates to debt issuances by the Community Facility Districts, as authorized by the Mello-Roos Community Facilities Act of 1982 as amended, and the Marks-Roos Local Bond Pooling Act of 1985, and are payable from special taxes levied on property within the Community Facilities Districts according to a methodology approved by the voters within the District. Neither the faith and credit nor taxing power of the District is pledged to the payment of the bonds. Reserves have been established from the bond proceeds to meet delinquencies should they occur. If delinquencies occur beyond the amounts held in those reserves, the District has no duty to pay the delinquency out of any available funds of the District. The District acts solely as an agent for those paying taxes levied and the bondholders, and may initiate foreclosure proceedings. Special assessment debt of \$9,510,000 as of June 30, 2017, does not represent debt of the District and, as such, does not appear in the financial statements.

COLTON JOINT UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 8 – JOINT VENTURES

The District is a member of the Alliance of Schools for Cooperative Insurance Programs (ASCIP), California Schools Risk Management (CSRМ), and California Schools Employee Benefits Association (CSEBA) public entity risk pools. The District pays an annual premium to ASCIP for property and liability coverage. Payments for health benefit coverage are paid to CSEBA. The District pays an annual premium to CSRМ for excess workers' compensation. The relationships between the District, the pools, and the JPAs are such that they are not component units of the District for financial reporting purposes.

These entities have budgeting and financial reporting requirements independent of member units and their financial statements are not presented in these financial statements; however, fund transactions between the entities and the District are included in these statements. Audited financial statements are available from the respective entities.

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. Information is available directly from the JPA's.

NOTE 9 – COMMITMENTS AND CONTINGENCIES

A. State and Federal Allowances, Awards and Grants

The District has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursement will not be material.

B. Construction Commitments

As of June 30, 2017, the District had commitments with respect to unfinished capital projects of \$14.9 million to be paid from a combination of State and local funds.

C. Litigation

The District is involved in certain legal matters that arose out of the normal course of business. The District has not accrued a liability for any potential litigation against it because it does not meet the criteria to be considered a liability at June 30, 2017.

COLTON JOINT UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 10 – 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; injuries to employees and natural disasters. During fiscal year ending June 30, 2017, the District participated in the Alliance of Schools for Cooperative Insurance Programs (ASCIP) public entity risk pool for property and liability insurance coverage. Settled claims have not exceeded the insured coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

Workers' Compensation

Since 1978, the District has self-insured itself for workers' compensation coverage, retaining risk of loss. Excess workers' compensation coverage is purchased through an insurance product that provides the required additional coverage. The District obtains excess coverage through California Schools Risk Management (CSRM).

Claims Liability

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

Unpaid Claims Liabilities

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

	Workers' Compensation
Liability Balance, July 1, 2015	\$ 10,021,322
Claims and changes in estimates	2,225,540
Claims payments	<u>(2,225,540)</u>
Liability Balance, June 30, 2016	10,021,322
Claims and changes in estimates	1,954,227
Claims payments	<u>(1,954,227)</u>
Liability Balance, June 30, 2017	<u><u>\$ 10,021,322</u></u>
Assets available to pay claims at June 30, 2017	<u><u>\$ 18,175,863</u></u>

COLTON JOINT UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 11 – PENSION PLANS

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Certificated employees are members of the California State Teachers' Retirement System (CalSTRS), and classified employees are members of California Public Employees' Retirement System (CalPERS).

A. General Information about the Pension Plans

Plan Descriptions

The District contributes to the California State Teachers' Retirement System (CalSTRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. Benefit provisions under the Plan are established by State statute and District resolution. CalSTRS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions, and membership information that can be found on the CalSTRS website.

The District also contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Benefit provisions under the Plan are established by State statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions, and membership information that can be found on the CalPERS website.

Benefits Provided

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

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

COLTON JOINT UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 11 – PENSION PLANS (continued)

A. General Information about the Pension Plans (continued)

Benefits Provided (continued)

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

Contributions

Active CalSTRS plan members under 2% at 60 were required to contribute 10.25% and plan members under 2% at 62 were required to contribute 9.205% of their salary in 2016-17. The required employer contribution rate for fiscal year 2016-17 was 12.58% of annual payroll. The contribution requirements of the plan members are established by State statute. Active CalPERS plan members are required to contribute 7.0% of their salary, and the District is required to contribute an actuarially determined rate. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The required employer contribution for fiscal year 2016-17 was 13.888%. The contribution requirements of the plan members are established by State statute.

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

	CalSTRS	CalPERS
Employer contributions	\$ 14,251,735	\$ 5,449,583
Employer contributions paid by State	\$ 8,636,237	\$ -
Employee contributions paid by employer	\$ -	\$ -

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

As of June 30, 2017, the District reported net pension liabilities for its proportionate shares of the net pension liability of each Plan as follows:

	Proportionate Share of Net Pension Liability
CalSTRS	\$ 173,085,340
CalPERS	\$ 62,113,945
Total Net Pension Liability	<u>\$ 235,199,285</u>

COLTON JOINT UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 11 - PENSION PLANS (continued)

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

The District's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2016, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015, rolled forward to June 30, 2016, using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability for each Plan as of June 30, 2015 and 2016, was as follows:

	CalSTRS	CalPERS
Proportion - June 30, 2015	0.2250%	0.3033%
Proportion - June 30, 2016	0.2140%	0.3145%
Change - Increase (Decrease)	-0.0110%	0.0112%

For the year ended June 30, 2017, the District recognized pension expense of \$30,840,084. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 19,701,318	\$ -
Differences between actual and expected experience	2,671,495	(4,222,220)
Changes in assumptions	-	(1,866,154)
Adjustment due to differences in proportions	25,846,652	-
Net differences between projected and actual earnings on plan investments	29,532,332	(6,134,045)
	<u>\$ 77,751,797</u>	<u>\$ (12,222,419)</u>

COLTON JOINT UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 11 – PENSION PLANS (continued)

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

The total amount of \$19,701,318 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30,	Amount
2018	\$ 8,745,334
2019	8,157,972
2020	10,690,125
2021	5,744,266
2022	(1,765,041)
Thereafter	-

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

	CalSTRS	CalPERS
Valuation Date	June 30, 2015	June 30, 2015
Measurement Date	June 30, 2016	June 30, 2016
Actuarial Cost Method	Entry age normal	Entry age normal
Actuarial Assumptions:		
Discount Rate	7.60%	7.65%
Inflation	3.00%	2.75%
Wage Growth	3.75%	Varies
Post-retirement Benefit Increase	2.00%	2.00%
Investment Rate of Return	7.60%	7.65%

CalSTRS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are based on RP2000 series tables adjusted to fit CalSTRS experience. RP2000 series tables are an industry standard set of mortality rates published by the Society of Actuaries. See CalSTRS July 1, 2006 - June 30, 2010 Experience Analysis for more information. The underlying mortality assumptions and all other actuarial assumptions used in the CalPERS June 30, 2015, valuation were based on the results of an actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can be found on the CalPERS website.

Discount Rate – for CalSTRS

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

COLTON JOINT UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 11 – PENSION PLANS (continued)

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

Discount Rate – for CalSTRS (continued)

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

Discount Rate – for CalPERS

The discount rate used to measure the total pension liability for Public Employee Retirement Fund ‘B’ (PERF B) was 7.65%. A projection of expected benefit payments and contributions was performed to determine if the assets would run out. The test revealed the assets would not run out. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for PERF B. The results of the crossover testing for the Plan are presented in a detailed report that can be obtained on CalPERS’ website.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, both short-term and long-term market return expectations as well as the expected pension fund cash flows were taken into account. Using historical returns of all of the funds’ asset classes, expected compound (geometric) returns were calculated over the short term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The long-term expected real rates of return by asset class can be found in CalPERS’ Comprehensive Annual Financial Report for the fiscal year ended June 30, 2016.

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

Asset Class	Target Allocation		Long-Term Expected Rate of Return	
	CalSTRS	CalPERS	CalSTRS	CalPERS
Global Equity	47%	51%	6.30%	5.71%
Global Debt Securities	N/A	20%	N/A	2.43%
Inflation Sensitive	4%	6%	3.80%	3.36%
Private Equity	13%	10%	9.30%	6.95%
Absolute Return/Risk Mitigating Strategies	9%	N/A	2.90%	N/A
Real Estate	13%	10%	5.20%	5.13%
Infrastructure and Forestland	N/A	2%	N/A	5.09%
Fixed Income	12%	N/A	0.30%	N/A
Cash/Liquidity	2%	1%	-1.00%	-1.05%
	<u>100%</u>	<u>100%</u>		

COLTON JOINT UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 11 – PENSION PLANS (continued)

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

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

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

	CalSTRS	CalPERS
1% Decrease	6.60%	6.65%
Net Pension Liability	\$ 249,108,840	\$ 92,674,351
Current Discount Rate	7.60%	7.65%
Net Pension Liability	\$ 173,085,340	\$ 62,113,945
1% Increase	8.60%	8.65%
Net Pension Liability	\$ 109,944,640	\$ 36,666,392

Pension Plan Fiduciary Net Position

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

C. Payable to the Pension Plans

At June 30, 2017, the District reported a payable of \$1,200,818 and \$12,576 for the outstanding amount of contributions to the CalSTRS and CalPERS pension plans, respectively, required for the fiscal year ended June 30, 2017.

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS

Colton Joint Unified School District administers a defined benefit postemployment plan, where plan assets may be used only for the payment of benefits to the members of that plan. The plan assets are accounted for in the Retiree Benefit Fund. The District implemented Governmental Accounting Standards Board Statement #45, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, in 2007-08.

Plan Descriptions and Contribution Information

The Postemployment Benefit Plan (the Plan) is a single-employer defined benefit healthcare plan administered by the Colton Joint Unified School District. The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. As of July 1, 2015, actuarial valuation, membership of the Plan consists of 158 retirees and beneficiaries currently receiving benefits and 2,290 active plan members.

COLTON JOINT UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (continued)

Plan Descriptions and Contribution Information (continued)

The contribution requirements of plan members and the District are established and may be amended by the District and the Association of Colton Educators (ACE), the local California Service Employees Association (CSEA), and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2016-17, the District contributed \$1,661,295 to the Plan, all of which was used for current premiums.

Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost is calculated based on the Annual Required Contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation:

Annual required contribution (ARC)	\$	4,149,819
Interest on net OPEB obligation		803,484
Adjustment to ARC		(1,045,387)
Annual OPEB cost		<u>3,907,916</u>
Contributions made:		
Pay-as-you-go premiums		<u>(1,661,295)</u>
Increase in net OPEB obligation		2,246,621
Net OPEB obligation - July 1, 2016		<u>16,042,437</u>
Net OPEB obligation - June 30, 2017	\$	<u><u>18,289,058</u></u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2016-17 and the two preceding years are as follows:

Year Ended June 30,	Annual OPEB Cost	Actual Employer Contribution	Percentage Contributed	Net OPEB Obligation
2015	4,023,035	1,854,108	46%	14,023,560
2016	3,829,435	1,810,558	47%	16,042,437
2017	3,907,916	1,661,295	43%	18,289,058

Funded Status and Funding Progress – OPEB Plans

As of July 1, 2015, the most recent actuarial valuation date, the District did not have a funded plan. The actuarial accrued liability (AAL) for benefits was \$35.4 million and the unfunded actuarial accrued liability (UAAL) was \$35.4 million.

COLTON JOINT UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS (continued)

Funded Status and Funding Progress - OPEB Plans (continued)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedules of funding progress present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designated to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Additional information as of the latest actuarial valuation follows:

Valuation Date	July 1, 2015
Actuarial Cost Method	Projected Unit Credit
Amortization Method	30-year level dollar
Remaining Amortization Period	30 years
Asset Valuation	N/A
Actuarial Assumptions:	
Discount rate	5.0%
Increases in Medical Premiums	
Medical	7.0%
Dental	4.0%

Required Supplementary Information

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

	Budgeted Amounts		Actual* (Budgetary Basis)	Variance with Final Budget - Pos (Neg)
	Original	Final		
Revenues				
LCFF Sources	\$ 216,330,443	\$ 215,832,530	\$ 215,832,491	\$ (39)
Federal Sources	13,730,588	14,892,969	12,294,020	(2,598,949)
Other State Sources	14,845,433	23,919,551	23,808,116	(111,435)
Other Local Sources	11,080,562	11,457,051	11,463,326	6,275
Total Revenues	255,987,026	266,102,101	263,397,953	(2,704,148)
Expenditures				
Current:				
Certificated Salaries	115,899,208	115,671,278	114,655,030	1,016,248
Classified Salaries	38,652,869	35,849,575	35,528,423	321,152
Employee Benefits	56,456,587	63,821,801	63,488,878	332,923
Books and Supplies	19,848,041	18,677,839	16,069,128	2,608,711
Services and Other Operating Expenditures	24,916,920	23,968,207	21,928,755	2,039,452
Capital Outlay	2,588,995	1,463,702	950,143	513,559
Other Outgo	2,870,371	3,239,235	3,239,235	-
Total Expenditures	261,232,991	262,691,637	255,859,592	6,832,045
Excess (Deficiency) of Revenues Over (Under) Expenditures	(5,245,965)	3,410,464	7,538,361	4,127,897
Other Financing Sources and Uses				
Interfund Transfers Out	(5,600,000)	(5,861,408)	(5,861,361)	47
Total Other Financing Sources and Uses	(5,600,000)	(5,861,408)	(5,861,361)	47
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(10,845,965)	(2,450,944)	1,677,000	4,127,944
Fund Balances, July 1, 2016	28,989,641	41,063,315	41,083,727	-
Fund Balances, June 30, 2017	<u>\$ 18,143,676</u>	<u>\$ 38,612,371</u>	<u>\$ 42,760,727</u>	<u>\$ 4,127,944</u>

* 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 Deferred Maintenance Fund and the Special Reserve Fund Other Than Capital Outlay, in accordance with the fund type definitions promulgated by GASB Statement No. 54.

COLTON JOINT UNIFIED SCHOOL DISTRICT
Schedule of OPEB Funding Progress
For the Fiscal Year Ended June 30, 2017

Actuarial Valuation Date	Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
7/1/2011	\$ -	\$ 31,620,590	\$ 31,620,590	0%	\$ 117,776,475	26.8%
7/1/2013	\$ -	\$ 38,649,524	\$ 38,649,524	0%	N/A	N/A
7/1/2015	\$ -	\$ 35,427,039	\$ 35,427,039	0%	N/A	N/A

COLTON JOINT UNIFIED SCHOOL DISTRICT
Schedule of Proportionate Share of the Net Pension Liability
For the Fiscal Year Ended June 30, 2017

	Last Ten Fiscal Years*		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
CalSTRS			
District's proportion of the net pension liability	<u>0.2140%</u>	<u>0.2250%</u>	<u>0.1770%</u>
District's proportionate share of the net pension liability	<u>\$ 173,085,340</u>	<u>\$ 151,479,000</u>	<u>\$ 103,433,490</u>
State's proportionate share of the net pension liability associated with the District	<u>98,548,904</u>	<u>80,115,478</u>	<u>62,458,234</u>
Totals	<u>\$ 271,634,244</u>	<u>\$ 231,594,478</u>	<u>\$ 165,891,724</u>
District's covered-employee payroll	<u>\$ 110,239,338</u>	<u>\$ 100,580,991</u>	<u>\$ 90,159,745</u>
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	<u>157.01%</u>	<u>150.60%</u>	<u>114.72%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>70%</u>	<u>74%</u>	<u>77%</u>
CalPERS			
District's proportion of the net pension liability	<u>0.3145%</u>	<u>0.3033%</u>	<u>0.2882%</u>
District's proportionate share of the net pension liability	<u>\$ 62,113,945</u>	<u>\$ 44,706,720</u>	<u>\$ 32,717,719</u>
District's covered-employee payroll	<u>\$ 37,764,303</u>	<u>\$ 33,504,443</u>	<u>\$ 30,233,421</u>
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	<u>164.48%</u>	<u>133.44%</u>	<u>108.22%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>74%</u>	<u>79%</u>	<u>83%</u>

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

COLTON JOINT UNIFIED SCHOOL DISTRICT
Schedule of Pension Contributions
For the Fiscal Year Ended June 30, 2017

Last Ten Fiscal Years*

	<u>2017</u>	<u>2016</u>	<u>2015</u>
CalSTRS			
Contractually required contribution	\$ 14,251,735	\$ 11,828,681	\$ 8,931,592
Contributions in relation to the contractually required contribution	<u>14,251,735</u>	<u>11,828,681</u>	<u>8,931,592</u>
Contribution deficiency (excess):	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	<u>\$ 113,288,831</u>	<u>\$ 110,239,338</u>	<u>\$ 100,580,991</u>
Contributions as a percentage of covered-employee payroll	<u>12.58%</u>	<u>10.73%</u>	<u>8.88%</u>
CalPERS			
Contractually required contribution	\$ 5,449,583	\$ 4,473,937	\$ 3,943,808
Contributions in relation to the contractually required contribution	<u>5,449,583</u>	<u>4,473,937</u>	<u>3,943,808</u>
Contribution deficiency (excess):	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	<u>\$ 39,239,509</u>	<u>\$ 37,764,303</u>	<u>\$ 33,504,443</u>
Contributions as a percentage of covered-employee payroll	<u>13.888%</u>	<u>11.847%</u>	<u>11.771%</u>

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

COLTON JOINT UNIFIED SCHOOL DISTRICT

Notes to the Required Supplementary Information For the Fiscal Year Ended June 30, 2017

NOTE 1 – PURPOSE OF SCHEDULES

Budgetary Comparison Schedules

These schedules are required by GASB Statement No. 34 as required supplementary information (RSI) for the General Fund and for each major special revenue fund that has a legally adopted annual budget. The budgetary comparison schedules present both (a) the original and (b) the final appropriated budgets for the reporting period as well as (c) actual inflows, outflows, and balances, stated on the District's budgetary basis. A separate column to report the variance between the final budget and actual amounts is also presented, although not required.

Schedule of OPEB Funding Progress

This schedule is required by GASB Statement No. 45 for all sole and agent employers that provide other postemployment benefits (OPEB). The schedule presents, for the most recent actuarial valuation and the two preceding valuations, information about the funding progress of the plan, including, for each valuation, the actuarial valuation date, the actuarial value of assets, the actuarial accrued liability, the total unfunded actuarial liability (or funding excess), the actuarial value of assets as a percentage of the actuarial accrued liability (funded ratio), the annual covered payroll, and the ratio of the total unfunded actuarial liability (or funding excess) to annual covered payroll.

Schedule of Proportionate Share of the Net Pension Liability

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

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

Schedule of 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.

NOTE 2 – SUMMARY OF CHANGES OF BENEFITS OR ASSUMPTIONS

Benefit Changes

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

Changes of Assumptions

There were no changes of assumptions.

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

NOTE 3 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS

At June 30, 2017, the District did not incur any excess of expenditures over appropriations in the individual major fund presented in the Budgetary Comparison Schedule.

Supplementary Information

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

The Colton Joint Unified School District was established in 1966, and consists of an area comprising approximately 119 acres. The District operates eighteen elementary schools, four middle schools, two high schools, a continuation high school, an adult school, a school for alternative education, and child development centers. There were no boundary changes during the year.

GOVERNING BOARD

Member	Office	Term Expires
Mr. Dan Flores	President	2018
Mr. Frank A. Ibarra	Vice-President	2020
Mrs. Joanne E. Thoring-Ojeda	Clerk	2018
Mr. Randall Cenicerros	Member	2018
Mrs. Patt Haro	Member	2020
Mr. Pilar Tabera	Member	2018
Mr. Kent Taylor	Member	2020

DISTRICT ADMINISTRATORS

Mr. Jerry Almendarez,
Superintendent

Mrs. Amanda Corridan,
Assistant Superintendent, Student Services Division

Mr. Frank Miranda, Ed.D.,
Assistant Superintendent, Business Services Division

Mrs. Ingrid Munsterman,
Assistant Superintendent, Human Resources Division

Mr. Mike Snellings,
Assistant Superintendent, Educational Services Division

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

	<u>Second Period Report</u>	<u>Annual Report</u>
	Certificate No. (7655A504)	Certificate No. (5F42AF69)
Regular ADA:		
Transitional Kindergarten through Third	6,550.07	6,536.25
Fourth through Sixth	5,370.80	5,350.16
Seventh and Eighth	3,551.91	3,519.35
Ninth through Twelfth	6,278.66	6,191.85
Total Regular ADA	<u>21,751.44</u>	<u>21,597.61</u>
Special Education, Nonpublic, Nonsectarian Schools:		
Transitional Kindergarten through Third	0.23	0.14
Fourth through Sixth	3.98	4.18
Seventh and Eighth	0.55	0.69
Ninth through Twelfth	7.53	7.31
Total Special Education, Nonpublic, Nonsectarian Schools	<u>12.29</u>	<u>12.32</u>
Total ADA	<u><u>21,763.73</u></u>	<u><u>21,609.93</u></u>

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

<u>Grade Level</u>	<u>Required</u>	<u>2016-17 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Status</u>
Kindergarten	36,000	38,700	180	Complied
Grade 1	50,400	55,200	180	Complied
Grade 2	50,400	55,200	180	Complied
Grade 3	50,400	55,200	180	Complied
Grade 4	54,000	55,200	180	Complied
Grade 5	54,000	55,200	180	Complied
Grade 6	54,000	55,200	180	Complied
Grade 7	54,000	64,590	180	Complied
Grade 8	54,000	64,590	180	Complied
Grade 9	64,800	65,152	180	Complied
Grade 10	64,800	65,152	180	Complied
Grade 11	64,800	65,152	180	Complied
Grade 12	64,800	65,152	180	Complied

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

General Fund	(Budget) 2018 ²	2017	2016	2015
Revenues and other financing sources	\$ 250,399,150	\$ 263,397,953	\$ 258,384,308	\$ 218,145,239
Expenditures	257,887,772	255,859,592	238,192,198	214,908,755
Other uses and transfers out	3,769,805	5,861,361	3,210,236	4,556,216
Total outgo	<u>261,657,577</u>	<u>261,720,953</u>	<u>241,402,434</u>	<u>219,464,971</u>
Change in fund balance (deficit)	<u>(11,258,427)</u>	<u>1,677,000</u>	<u>16,981,874</u>	<u>(1,319,732)</u>
Ending fund balance	<u>\$ 31,502,300</u>	<u>\$ 42,760,727</u>	<u>\$ 41,083,727</u>	<u>\$ 24,101,853</u>
Available reserves ¹	<u>\$ 24,521,994</u>	<u>\$ 13,456,924</u>	<u>\$ 17,117,432</u>	<u>\$ 6,443,595</u>
Available reserves as a percentage of total outgo	<u>9.4%</u>	<u>5.1%</u>	<u>7.1%</u>	<u>2.9%</u>
Total long-term debt	<u>\$ 494,218,997</u>	<u>\$ 497,486,630</u>	<u>\$ 425,665,740</u>	<u>\$ 361,971,861</u>
Average daily attendance at P-2	<u>21,660</u>	<u>21,764</u>	<u>21,999</u>	<u>22,109</u>

The General Fund balance has increased by \$18,658,874 over the past two years. The fiscal year 2017-18 adopted budget projects a decrease of \$11.3 million. For a district of this size, the state recommends available reserves of at least 3% of total general fund expenditures, transfers out, and other uses (total outgo).

The District has incurred an operating surplus in two of the past three years, but anticipates incurring an operating deficit during the 2017-18 fiscal year. Long-term debt has increased by \$135.5 million over the past two years.

Average daily attendance has decreased by 345 over the past two years. A decrease of 104 ADA is anticipated during fiscal year 2017-18.

¹ Available reserves consist of all unassigned fund balances and all funds reserved for economic uncertainty in the General Fund.

² Revised Final Budget September, 2017.

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 Deferred Maintenance Fund and the Special Reserve Fund for Other Than Capital Outlay in accordance with the fund type definitions promulgated by GASB Statement No. 54.

COLTON JOINT UNIFIED SCHOOL DISTRICT

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

	<u>Cafeteria Fund</u>
June 30, 2017, annual financial and budget report (SACS) fund balances	\$ 1,426,761
Adjustments and reclassifications:	
Increasing (decreasing) the fund balance:	
Cash on hand and in banks understated	280,469
Accounts receivable overstated	<u>(411,804)</u>
June 30, 2017, audited financial statement fund balances	<u>\$ 1,295,426</u>

COLTON JOINT UNIFIED SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Cluster Expenditures	Federal Expenditures
Federal Programs:				
U.S. Department of Agriculture:				
Passed through California Dept. of Education (CDE):				
Child Nutrition Cluster:				
School Breakfast Program - Especially Needy	10.553	13526	\$ 1,598,609	
National School Lunch Program	10.555	13523	7,671,956	
Summer Food Service Program	10.559	13004	218,272	
USDA Donated Foods	10.555	N/A	950,256	
Total Child Nutrition Cluster				\$ 10,439,093
Child and Adult Care Food Program	10.558	13393		631,786
Child and Adult Care Food Program - Cash in lieu	10.558	13389		38,540
Total U.S. Department of Agriculture				11,109,419
U.S. Department of Defense:				
Reserve Officer Training Corps (ROTC)	12.000	N/A		179,465
U.S. Department of Education:				
Passed through California Dept. of Education (CDE):				
CalWORKs for ROCP or Adult Education	N/A	23550		92,986
No Child Left Behind (NCLB):				
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329		6,310,727
Title I, Part G, Advanced Placement (AP) Test Fee Reimbursement	84.330	14831		53,504
Title II, Part A, Supporting Effective Instruction	84.386	14341		556,021
English Language Acquisition Grants Cluster				
Title III, Limited English Proficiency	84.365	14346	463,093	
Title III, Immigration Education	84.365		300	
Total English Language Acquisition State Grants Cluster				463,393
Passed through East Valley SELPA:				
Individuals with Disabilities Education Act (IDEA):				
Special Education Cluster:				
Local Assistance Entitlement	84.027	13379	3,634,750	
Local Assistance, Part B, Sec 611, Private School ISPs	84.027	10115	40,010	
Preschool Grants, Part B, Sec 619	84.173	13430	72,732	
Preschool Local Entitlement, Part B, Sec 611	84.027A	13682	201,054	
Mental Health Allocation Plan, Part B, Sec 611	84.027A	14468	255,448	
Preschool Staff Development	84.173A	13431	644	
Total Special Education Cluster				4,204,638
Total U.S. Department of Education				11,681,269
U.S. Department of Health & Human Services:				
Passed through California Dept. of Education (CDE):				
Child Development: Quality Improvement-CC staff retention	93.575	14990		11,890
Medi-Cal Billing Option	93.778	10013		560,208
Direct Federal to Local Program:				
Head Start	93.600	10016		1,006,851
Total U.S. Department of Health & Human Services				1,578,949
Total Expenditures of Federal Awards				\$ 24,549,102

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

COLTON JOINT UNIFIED SCHOOL DISTRICT
Combining Balance Sheet - Non-Major Governmental Funds
June 30, 2017

	Adult Education Fund	Child Development Fund	Cafeteria Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay	Capital Projects Fund for Blended Component Units	Total Non-Major Governmental Funds
ASSETS							
Cash	\$ 575,207	\$ 43,482	\$ 695,122	\$ 977	\$ 2,153,548	\$ -	\$ 3,468,336
Investments	-	-	-	-	-	866,872	866,872
Accounts receivable	89,913	359,003	1,635,667	3	5,118	-	2,089,704
Due from other funds	-	-	28,404	-	-	-	28,404
Inventories	-	-	67,674	-	-	-	67,674
Total Assets	<u>\$ 665,120</u>	<u>\$ 402,485</u>	<u>\$ 2,426,867</u>	<u>\$ 980</u>	<u>\$ 2,158,666</u>	<u>\$ 866,872</u>	<u>\$ 6,520,990</u>
LIABILITIES AND FUND BALANCES							
Liabilities							
Accounts payable	\$ 80,447	\$ 84,179	\$ 170,025	\$ -	\$ -	\$ -	\$ 334,651
Due to other funds	12,458	96,303	961,416	-	-	-	1,070,177
Total Liabilities	92,905	180,482	1,131,441	-	-	-	1,404,828
Fund Balances							
Nonspendable	-	-	92,674	-	-	-	92,674
Restricted	572,215	222,003	1,202,752	980	2,158,666	866,872	5,023,488
Total Fund Balances	572,215	222,003	1,295,426	980	2,158,666	866,872	5,116,162
Total Liabilities and Fund Balances	<u>\$ 665,120</u>	<u>\$ 402,485</u>	<u>\$ 2,426,867</u>	<u>\$ 980</u>	<u>\$ 2,158,666</u>	<u>\$ 866,872</u>	<u>\$ 6,520,990</u>

COLTON JOINT UNIFIED SCHOOL DISTRICT

*Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Non-Major
Governmental Funds*

For the Fiscal Year Ended June 30, 2017

	Adult Education Fund	Child Development Fund	Cafeteria Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay	Capital Projects Fund for Blended Component Units	Total Non-Major Governmental Funds
REVENUES							
Federal sources	\$ -	\$ 1,018,741	\$ 11,109,411	\$ -	\$ -	\$ -	\$ 12,128,152
Other state sources	1,074,175	1,656,454	723,913	-	-	-	3,454,542
Other local sources	3,436	4,016	590,272	21	14,717	4,829	617,291
Total Revenues	1,077,611	2,679,211	12,423,596	21	14,717	4,829	16,199,985
EXPENDITURES							
Current:							
Instructional Services:							
Instruction	338,476	1,691,678	-	-	-	-	2,030,154
Instruction-Related Services:							
Supervision of instruction	6,842	74,740	-	-	-	-	81,582
School site administration	90,023	340,645	-	-	-	-	430,668
Pupil Support Services:							
Food services	-	130,876	12,923,917	-	-	-	13,054,793
All other pupil services	39,239	173,674	-	-	-	-	212,913
Plant Services	-	151,531	65,366	-	-	3,992,094	4,208,991
Transfers of Indirect Costs	30,816	105,273	-	-	-	-	136,089
Capital Outlay	-	-	101,106	3,051	-	-	104,157
Debt Service:							
Principal	-	15,000	-	-	-	-	15,000
Total Expenditures	505,396	2,683,417	13,090,389	3,051	-	3,992,094	20,274,347
Excess (Deficiency) of Revenues Over (Under) Expenditures	572,215	(4,206)	(666,793)	(3,030)	14,717	(3,987,265)	(4,074,362)
OTHER FINANCING SOURCES (USES)							
Interfund transfers in	-	-	304,679	-	-	-	304,679
Other financing sources	-	-	-	-	438,097	-	438,097
Total Other Financing Sources and Uses	-	-	304,679	-	438,097	-	742,776
Net Change in Fund Balances	572,215	(4,206)	(362,114)	(3,030)	452,814	(3,987,265)	(3,331,586)
Fund Balances, July 1, 2016	-	226,209	1,657,540	4,010	1,705,852	4,854,137	8,447,748
Fund Balances, June 30, 2017	\$ 572,215	\$ 222,003	\$ 1,295,426	\$ 980	\$ 2,158,666	\$ 866,872	\$ 5,116,162

See accompanying note to supplementary information.

COLTON JOINT UNIFIED SCHOOL DISTRICT

Note to the Supplementary Information

June 30, 2017

NOTE 1 – PURPOSE OF SCHEDULES

Schedule of Average Daily Attendance (ADA)

Average daily attendance (ADA) is a measurement of the number of pupils attending classes of the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made to school districts. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

Schedule of Instructional Time

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

Schedule of Financial Trends and Analysis

This schedule discloses the District's financial trends by displaying past years' data along with current year budget information. These financial trend disclosures are used to evaluate the District's ability to continue as a going concern for a reasonable period of time.

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

Schedule of Expenditures of Federal Awards

The schedule of expenditures of Federal awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements. The District did not elect to use the ten percent de minimis indirect cost rate.

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

	<u>CFDA Number</u>	<u>Amount</u>
Total Federal Revenues from the Statement of Revenues, Expenditures, and Changes in Fund Balances		\$ 24,422,172
Differences between Federal Revenues and Expenditures:		
Medi-Cal Billing Option	93.778	<u>126,930</u>
Total Schedule of Expenditures of Federal Awards		<u>\$ 24,549,102</u>

Combining Fund Financial Statements

Combining fund balance sheets and statements of revenues, expenditures and changes in fund balance have been presented for the non-major funds to provide additional information to the users of these financial statements. These statements have been prepared using the basis of accounting described in the notes to the financial statements.

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Other Independent Auditors' Reports

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

Board of Education
Colton Joint Unified School District
Colton, 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 Colton Joint Unified School District as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Colton Joint Unified School District's basic financial statements, and have issued our report thereon dated December 12, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Colton Joint 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 Colton Joint Unified School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Colton Joint Unified School District's internal control.

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

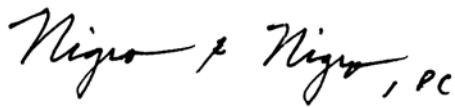
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Colton Joint 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.

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

Murrieta, California
December 12, 2017

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Board of Education
Colton Joint Unified School District
Colton, California

Report on State Compliance

We have audited Colton Joint Unified School District's compliance with the types of compliance requirements described in the *2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* that could have a direct and material effect on each of the Colton Joint Unified School District's state government programs as noted on the following page for the fiscal year ended June 30, 2017.

Management's Responsibility

Management is responsible for compliance with state laws, regulations, and the terms and conditions of its State programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Colton Joint Unified School District's state programs based on our audit of the types of compliance requirements referred to on the following page. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to on the following page that could have a direct and material effect on a state program occurred. An audit includes examining, on a test basis, evidence about Colton Joint 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 Colton Joint 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:

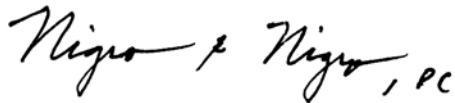
Description	Procedures Performed
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	No (see below)
Continuation Education	Yes
Instructional Time	Yes
Instructional Materials	Yes
Ratio of Administrative Employees to Teachers	Yes

Description	Procedures Performed
Classroom Teacher Salaries	Yes
Early Retirement Incentive	Not Applicable
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	Not Applicable
Middle or Early College High Schools	Not Applicable
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
Mental Health Expenditures	Yes
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After School Education and Safety Program	Yes
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study - Course Based	Not Applicable
Immunizations	Yes
Charter Schools:	
Attendance	Not Applicable
Mode of Instruction	Not Applicable
Nonclassroom-Based Instruction/Independent Study	Not Applicable
Determination of Funding for Nonclassroom-Based Instruction	Not Applicable
Annual Instructional Minutes – Classroom Based	Not Applicable
Charter School Facility Grant Program	Not Applicable

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

Unmodified Opinion on Compliance with State Programs

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



Murrieta, California
December 12, 2017



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

Board of Education
Colton Joint Unified School District
Colton, California

Report on Compliance for Each Major Federal Program

We have audited Colton Joint 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 Colton Joint Unified School District's major federal programs for the year ended June 30, 2017. Colton Joint 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 Colton Joint 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 Colton Joint 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 Colton Joint Unified School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Colton Joint Unified School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

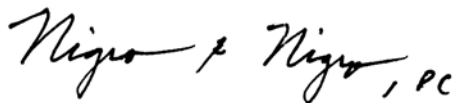
Report on Internal Control Over Compliance

Management of Colton Joint 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 Colton Joint Unified School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

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



Murrieta, California
December 12, 2017

Findings and Questioned Costs

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

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

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

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(s) identified not considered to be material weaknesses?	<u>None reported</u>
Type of auditors' report issued on compliance for major programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance, Section 200.516	<u>No</u>
Identification of major programs:	
<u>CFDA Numbers</u> <u>Name of Federal Program or Cluster</u>	
<u>84.027, 84.127</u> <u>Special Education Cluster (IDEA)</u>	
<u>84.010</u> <u>Title I, Part A</u>	

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 750,000</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

State Awards

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

SECTION II - FINANCIAL STATEMENT FINDINGS

This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*. Pursuant to Assembly Bill (AB) 3627, all audit findings must be identified as one or more of the following categories:

<u>Five Digit Code</u>	<u>AB 3627 Finding Types</u>
10000	Attendance
20000	Inventory of Equipment
30000	Internal Control
40000	State Compliance
42000	Charter School Facilities Programs
50000	Federal Compliance
60000	Miscellaneous
61000	Classroom Teacher Salaries
62000	Local Control Accountability Plan
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

There were no financial statement findings in 2016-17.

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

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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

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

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

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

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

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

COLTON JOINT UNIFIED SCHOOL DISTRICT

Summary Schedule of Prior Audit Findings

For the Fiscal Year Ended June 30, 2017

Original Finding No.	Finding	Code	Recommendation	Current Status
<p><i>Finding 2016-001: Unduplicated Pupil Counts</i></p>	<p>Supplemental and concentration grant amounts are calculated based on the percentage of "unduplicated pupils" enrolled in the LEA on Census Day (first Wednesday in October). The percentage equals:</p> <ul style="list-style-type: none"> • Unduplicated count of pupils who (1) are English learners, (2) meet income or categorical eligibility requirements for free or reduced-price meals under the National School Lunch Program, or (3) are foster youth. "Unduplicated count" means that each pupil is counted only once even if the pupil meets more than one of these criteria (<i>EC</i> sections 2574(b)(2) and 42238.02(b)(1)). • Divided by total enrollment in the LEA (<i>EC</i> sections 2574(b)(1) and 42238.02(b)(5)). All pupil counts are based on Fall 1 certified enrollment reported in the CALPADS as of Census Day. <p>We found twenty-one pupils who were classified as an English Learner (EL), but there was no evidence to indicate that the pupil was properly classified as EL.</p>	<p>40000</p>	<p>We recommend that the District take extra care to ensure that all pupils are properly classified on the CALPADS report in the future.</p>	<p>Implemented.</p>

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To the Board of Education
Colton Joint Unified School District
Colton, California

In planning and performing our audit of the basic financial statements of Colton Joint Unified School District for the fiscal year ending June 30, 2017, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control structure.

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

ASSOCIATED STUDENT BODY (ASB) FUNDS

Observation: In our test of cash disbursements at *Colton and Joe Baca Middle, Grand Terrace High, Bloomington High* and *Colton High*, we noted that some of the disbursements sampled were approved by the District Representative, the ASB advisor, and/or the student representative, but not until *after the expenditure had already been incurred*. In some cases, one or more signatures was not even obtained. 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. We recommend that the sites adopt a procedure for compliance with the Education Code in obtaining the required approvals.

Observation: During our testing of cash disbursements at *Bloomington High*, we noted that four of the disbursements tested were shipped directly to the purchaser’s personal residence.

Recommendation: We recommend that purchases should only be shipped to the school site and should be received by someone other than the original purchaser. Sites should then consistently document a physical receipt of the goods or services on the corresponding invoice, packing slip, or other documentation, such as writing “ok to pay” or “received” and initialing the document prior to issuing the check for payment. This ensures that payment is not being made for items received incorrectly or not received at all.

Observation: At *Bloomington High* in our test of expenditures, we noted disbursements which were missing supporting documentation such as an invoice, proper authorization, and proof of receipt. Issuing payment for expenditures without proper approvals and supporting documentation can provide the opportunity for the misappropriation of student funds.

Recommendation: We recommend that the site require all approvals and appropriate supporting documentation prior to issuing disbursements to ensure that student funds are being properly spent.

ASSOCIATED STUDENT BODY (ASB) FUNDS (continued)

Observation: In our testing of cash receipts at *Colton Middle* and *Bloomington High*, some deposits tested 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 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.

Observation: During our internal control testing at *Bloomington High*, we noted that most monthly bank reconciliations were not prepared until the second month following the statement date.

Recommendation: We recommend that the District emphasize to the school that bank reconciliations should be prepared preferably within two to three weeks after the bank statement is received from the bank.

Observation: During inquiry at *Joe Baca Middle*, we noted that ASB funds are used to purchase gift cards. Without a board policy, the use of ASB funds to purchase gift cards constitutes a gift of public funds. Gifts of public funds to teachers, students or families are not allowable no matter how nominal the amount or how worthy the cause. ASB funds are considered public funds because they are raised through the District's tax identification number and receive the benefit of nontaxable status.

Recommendation: We recommend that ASB funds are not used to purchase gift cards as this constitutes a gift of public funds. (Note that "Awards" – not a gift but an "award" for excellence- to employees and students only are allowable under strict circumstances – see ASB manual Chapter 14).

DISTRICT OFFICE

Observation: During our testing of district cash receipts, we noted a receipt for a payment from a vendor that lacked proper supporting documentation. Without back up documentation, it was not possible to verify that the correct amount was received or the reason for the payment.

Recommendation: We recommend that the District acquire and retain supporting documentation for all cash received to determine if the payment is from the overpayment of an invoice, a reimbursement for a return of items, or a rebate so that it can be correctly recorded and verified as a legitimate business purpose.

Observation: During inquiry with Maintenance and Operations, we noted that employees are permitted to use District tools and small equipment for personal use.

Recommendation: We recommend the District discontinue this practice as tools are purchased with public funds and could be lost or damaged by allowing employees to take items for personal use.

DISTRICT OFFICE (continued)

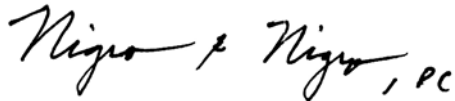
Observation: During an internal audit of the Self Insurance Fund, it was discovered that the District transferred a net of \$3.5 million during the 2012-13 fiscal year from the Self-Insurance Fund to the General Fund for operational costs and did not repay the amount to the Fund in subsequent years. Amounts are transferred annually from the General Fund to the Self-Insurance Fund for Workers Compensation, however. The District plans on transferring the full amount for the OPEB account in the 2017-18 fiscal year from the General Fund.

Recommendation: We recommend the District repay the Self-Insurance Fund from the General Fund for the amount transferred out in compliance with the Education Code.

Observation: The District contract with CSEA limits the maximum vacation carryover of up to 44 days (352 hours). During our testing of compensated absences, we noted that thirty-three employees had accrued more vacation than is allowable under the terms of the collective bargaining agreement as of June 30, 2017. Permitting employees to exceed the maximum allowed vacation carryover creates an additional liability will continue to grow from cost of living and pay increases.

Recommendation: We recommend that the District enforce the maximum vacation carryover policy by capping the vacation time at the amount allowed by the agreement. As a good internal control, we recommend the District work with employees to develop a plan to use vacation time until it is within the allowed limits. The District should also consider the feasibility of paying off the excess balances.

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



Murrieta, California
December 12, 2017