

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



COLTON JOINT UNIFIED SCHOOL DISTRICT
For the Fiscal Year Ended June 30, 2016
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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, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *2015-16 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Colton Joint Unified School District, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

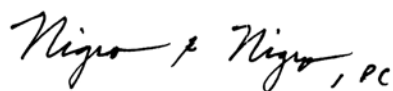
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10, budgetary comparison information on page 49, schedule of funding progress on page 50, schedule of proportionate share of the net pension liability on page 51, and schedule of contributions on page 52 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 56 to 59, the schedule of expenditures of federal awards on page 60, and the combining financial statements on pages 61 to 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 55 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 October 24, 2016, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Murrieta, California
October 24, 2016

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

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, 2016. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- The District's financial status increased overall as a result of this year's operations. Net position of governmental activities increased by \$11.3 million, or 15.6%.
- Governmental expenses were about \$276.1 million. Revenues were about \$287.4 million.
- The District acquired over \$4.8 million in new capital assets during the year. These expenditures were incurred primarily from Measure G bonds and developer fee funds.
- The District increased its outstanding long-term debt by \$63.7 million. This was primarily due to an increase in net pension liability.
- Grades K-12 average daily attendance (ADA) decreased by 110, or 0.5%.

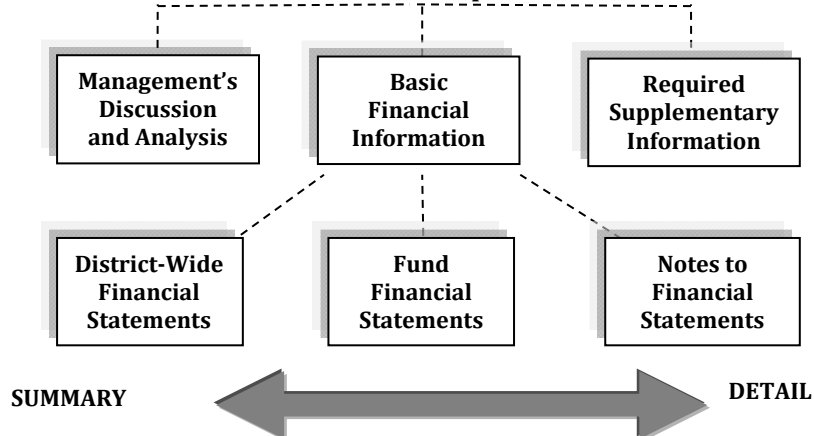
OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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, 2016

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

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

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

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

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, 2016

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, 2016

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 retiree benefits fund. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position. The District's combined net position was higher on June 30, 2016, than it was the year before – increasing 15.6% to \$83.9 million (See Table A-1).

Table A-1

	Governmental Activities (In millions)		Variance Increase
	2016	2015	(Decrease)
Current assets	\$ 132.3	\$ 110.9	\$ 21.4
Capital assets	378.6	384.7	(6.1)
Total assets	510.9	495.6	15.3
Total deferred outflows	64.3	13.9	50.4
Current liabilities	39.1	37.9	1.2
Long-term liabilities	425.7	362.0	63.7
Total liabilities	464.8	399.9	64.9
Total deferred inflows	26.5	37.0	(10.5)
Net position			
Net investment in capital assets	201.9	215.2	(13.3)
Restricted	42.7	35.9	6.8
Unrestricted	(160.7)	(178.5)	17.8
Total net position	\$ 83.9	\$ 72.6	\$ 11.3

Changes in net position, governmental activities. The District's total revenues increased 15.9% to \$287.4 million (See Table A-2). The increase is due primarily to increased state funding.

The total cost of all programs and services increased 9.5% to \$276.1 million. The District's expenses are predominantly related to educating and caring for students, 77.9%. The purely administrative activities of the District accounted for just 5.4% of total costs. A significant contributor to the increase in costs was negotiated salary schedule increase, step and column increases, instruction and instruction related services.

Table A-2

	Governmental Activities (In millions)		Variance Increase
	2016	2015	(Decrease)
Total Revenues	\$ 287.4	\$ 248.0	\$ 39.4
Total Expenses	276.1	252.1	24.0
Increase (decrease) in net position	\$ 11.3	\$ (4.1)	\$ 15.4

COLTON JOINT UNIFIED SCHOOL DISTRICT

Management's Discussion and Analysis (Unaudited)

For the Fiscal Year Ended June 30, 2016

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 \$90.3 million, which is above last year's ending fund balance of \$72.0 million. The primary cause of the increased fund balance is the increase in state funding.

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 \$1.6 million primarily to reflect federal and state budget actions.
- Salaries and benefits costs – decreased \$2.4 million due to revised cost estimates.
- Other non-personnel expenses – increased \$6.4 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 \$7.7 million, the actual results for the year show that revenues exceeded expenditures by roughly \$20.2 million. Actual revenues were \$7.3 million more than anticipated, and expenditures were \$5.2 million less than budgeted. That amount consists primarily of restricted categorical program dollars that were not spent as of June 30, 2016, that will be carried over into the 2016-17 budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2015-16 the District had invested \$4.8 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 \$10.7 million.

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

	Governmental Activities (In millions)		Variance Increase (Decrease)
	2016	2015	
Land	\$ 39.3	\$ 39.5	\$ (0.2)
Improvement of sites	172.1	176.6	(4.5)
Buildings	117.9	120.7	(2.8)
Equipment	4.5	3.8	0.7
Construction in progress	44.8	44.1	0.7
Total	<u>\$ 378.6</u>	<u>\$ 384.7</u>	<u>\$ (6.1)</u>

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

CAPITAL ASSET AND DEBT ADMINISTRATION (continued)

Long-Term Debt

At year-end the District had \$425.7 million in general obligation bonds, capital and financing leases, and employment and pension benefits - an increase of 17.6% from last year - as shown in Table A-4. (More detailed information about the District's long-term liabilities is presented in Note 7 to the financial statements).

Table A-4: Outstanding Long-Term Debt at Year-End

	Governmental Activities		Variance Increase (Decrease)
	(In millions)		
	2016	2015	
General obligation bonds	\$ 208.8	\$ 206.8	\$ 2.0
Financing lease	2.9	3.4	(0.5)
Compensated absences	1.8	1.6	0.2
Other postemployment benefits	16.0	14.0	2.0
Net pension liability	196.2	136.2	60.0
Total	\$ 425.7	\$ 362.0	\$ 63.7

FACTORS BEARING ON THE DISTRICT'S FUTURE

Evolution of the Budget

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

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

Proposition 98

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

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

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

Minimum Guarantee

Proposition 98 Funding Revised Upward Across Three-Year Period

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

Two Key Drivers of Increase in 2016-17

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

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

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

New Maintenance Factor Created in 2016-17

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

K-12 Education

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

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

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

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

New Spending

Large Increase for LCFF

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

Significant Discretionary One-Time Funding

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

All of these factors were considered in preparing the Colton Joint Unified School District budget for the 2016-17 fiscal year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

COLTON JOINT UNIFIED SCHOOL DISTRICT
Statement of Net Position
June 30, 2016

	Governmental Activities
ASSETS	
Cash	\$ 114,065,654
Investments	4,981,701
Accounts receivable	12,908,919
Stores inventories	234,201
Prepaid expenses	120,761
Capital assets:	
Non-depreciable assets	84,121,731
Depreciable assets	422,447,236
Less accumulated depreciation	<u>(127,966,252)</u>
Total assets	<u>510,913,951</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to pensions	63,244,440
Deferred amounts on refunding	<u>1,019,420</u>
Total deferred outflows of resources	<u>64,263,860</u>
LIABILITIES	
Accounts payable	38,815,503
Unearned revenues	272,253
Long-term debt:	
Portion due or payable within one year	5,977,589
Portion due or payable after one year	<u>419,688,151</u>
Total liabilities	<u>464,753,496</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to pensions	<u>26,499,554</u>
NET POSITION	
Net investment in capital assets	201,867,061
Restricted for:	
Capital projects	15,870,217
Debt service	16,036,655
Categorical programs	10,882,368
Unrestricted	<u>(160,731,540)</u>
Total net position	<u>\$ 83,924,761</u>

COLTON JOINT UNIFIED SCHOOL DISTRICT
Statement of Activities
For the Fiscal Year Ended June 30, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities					
Instructional Services:					
Instruction	\$ 155,837,238	\$ 26	\$ 18,812,323	\$ 1,895	\$ (137,022,994)
Instruction-Related Services:					
Supervision of instruction	7,022,310	-	4,441,924	-	(2,580,386)
Instructional library, media and technology	1,710,688	-	79,602	-	(1,631,086)
School site administration	14,061,134	-	379,608	-	(13,681,526)
Pupil Support Services:					
Home-to-school transportation	4,603,474	-	-	-	(4,603,474)
Food services	14,160,778	614,625	11,601,674	-	(1,944,479)
All other pupil services	17,743,893	-	4,590,773	-	(13,153,120)
General Administration Services:					
Data processing services	5,980,963	-	-	-	(5,980,963)
Other general administration	9,016,195	23,477	1,062,087	-	(7,930,631)
Plant Services	27,491,447	143,469	3,217,846	-	(24,130,132)
Ancillary Services	2,279,038	-	3,189	-	(2,275,849)
Community Services	154,257	-	-	-	(154,257)
Enterprise Activities	2,039,016	-	-	-	(2,039,016)
Interest on Long-term Debt	11,003,904	-	-	-	(11,003,904)
Other Outgo	2,968,793	535,291	671,918	-	(1,761,584)
Total Governmental Activities	\$ 276,073,128	\$ 1,316,888	\$ 44,860,944	\$ 1,895	(229,893,401)
General Revenues:					
Property taxes					30,865,069
Federal and state aid not restricted to specific purpose					207,587,192
Interest and investment earnings					809,145
Gain from sale of land					1,472,541
Miscellaneous					483,127
Total general revenues					241,217,074
Change in net position					11,323,673
Net position - July 1, 2015					72,601,088
Net position - June 30, 2016					\$ 83,924,761

COLTON JOINT UNIFIED SCHOOL DISTRICT
Balance Sheet – Governmental Funds
June 30, 2016

	General Fund	Capital Facilities Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS					
Cash	\$ 56,197,039	\$ 14,562,070	\$ 16,036,655	\$ 12,602,304	\$ 99,398,068
Investments	127,564	-	-	4,854,137	4,981,701
Accounts receivable	9,407,434	23,241	-	1,995,874	11,426,549
Due from other funds	163,364	-	-	19,753	183,117
Inventories	179,126	-	-	55,075	234,201
Prepaid expenditures	120,761	-	-	-	120,761
Total Assets	<u>\$ 66,195,288</u>	<u>\$ 14,585,311</u>	<u>\$ 16,036,655</u>	<u>\$ 19,527,143</u>	<u>\$ 116,344,397</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 24,822,584	\$ 424,956	\$ -	\$ 332,991	\$ 25,580,531
Due to other funds	19,753	-	-	163,364	183,117
Unearned revenue	269,224	-	-	3,029	272,253
Total Liabilities	<u>25,111,561</u>	<u>424,956</u>	<u>-</u>	<u>499,384</u>	<u>26,035,901</u>
Fund Balances					
Nonspendable	349,887	-	-	80,075	429,962
Restricted	8,998,619	14,160,355	16,036,655	18,947,684	58,143,313
Assigned	14,617,789	-	-	-	14,617,789
Unassigned	17,117,432	-	-	-	17,117,432
Total Fund Balances	<u>41,083,727</u>	<u>14,160,355</u>	<u>16,036,655</u>	<u>19,027,759</u>	<u>90,308,496</u>
Total Liabilities and Fund Balances	<u>\$ 66,195,288</u>	<u>\$ 14,585,311</u>	<u>\$ 16,036,655</u>	<u>\$ 19,527,143</u>	<u>\$ 116,344,397</u>

COLTON JOINT UNIFIED SCHOOL DISTRICT

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

Total fund balances - governmental funds \$ 90,308,496

Amounts reported for governmental *activities* in the statement of net position are different because capital assets used for governmental activities are not financial resources and therefore are not reported as assets in governmental funds.

The cost of capital assets is:	506,568,967	
Accumulated depreciation is:	<u>(127,966,252)</u>	
Capital assets, net of depreciation		378,602,715

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: (2,459,709)

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 deferred outflow of resources. The remaining deferred amounts on refunding at the end of the period were: 1,019,420

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	63,244,440
Deferred inflows of resources relating to pensions	(26,499,554)

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 governmental activities consist of:

General obligation bonds payable	208,780,007	
Financing lease payable	2,853,528	
Capital leases payable	15,000	
Compensated absences payable	1,789,048	
Other postemployment benefits	16,042,437	
Net pension liability	<u>196,185,720</u>	(425,665,740)

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 internal service funds is: 5,374,693

Total net position - governmental activities \$ 83,924,761

COLTON JOINT UNIFIED SCHOOL DISTRICT

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

	General Fund	Capital Facilities Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES					
LCFF sources	\$ 203,594,548	\$ -	\$ -	\$ -	\$ 203,594,548
Federal sources	12,307,036	-	-	12,064,182	24,371,218
Other state sources	31,047,897	-	96,044	2,176,237	33,320,178
Other local sources	11,434,827	759,083	11,186,661	787,023	24,167,594
Total Revenues	258,384,308	759,083	11,282,705	15,027,442	285,453,538
EXPENDITURES					
Current:					
Instructional Services:					
Instruction	145,305,724	-	-	1,583,218	146,888,942
Instruction-Related Services:					
Supervision of instruction	7,263,976	-	-	59,073	7,323,049
Instructional library, media and technology	1,649,044	-	-	-	1,649,044
School site administration	13,749,086	-	-	339,007	14,088,093
Pupil Support Services:					
Home-to-school transportation	4,723,763	-	-	-	4,723,763
Food services	5,150	-	-	13,816,322	13,821,472
All other pupil services	17,775,687	-	-	185,372	17,961,059
Ancillary Services	1,892,812	-	-	-	1,892,812
Community Services	154,257	-	-	-	154,257
General Administration Services:					
Data processing services	6,284,214	-	-	-	6,284,214
Other general administration	9,094,470	176,004	-	-	9,270,474
Plant Services	26,545,837	354,396	-	203,584	27,103,817
Transfers of Indirect Costs	(370,060)	-	-	370,060	-
Capital Outlay	372,829	1,274,768	-	2,552,422	4,200,019
Intergovernmental Transfers	3,130,686	-	-	-	3,130,686
Debt Service:					
Issuance costs	-	-	315,564	-	315,564
Principal	525,414	-	2,208,203	15,000	2,748,617
Interest	89,309	-	6,237,241	-	6,326,550
Total Expenditures	238,192,198	1,805,168	8,761,008	19,124,058	267,882,432
Excess (Deficiency) of Revenues Over (Under) Expenditures	20,192,110	(1,046,085)	2,521,697	(4,096,616)	17,571,106
OTHER FINANCING SOURCES (USES)					
Interfund transfers in	-	1,929,716	-	(19,480)	1,910,236
Interfund transfers out	(3,210,236)	-	-	-	(3,210,236)
Proceeds from refunding bonds	-	-	19,010,000	-	19,010,000
Payment to escrow agent for defeased debt	-	-	(20,659,555)	-	(20,659,555)
Premiums on issuance of debt	-	-	1,965,120	-	1,965,120
Proceeds from sale of property	-	-	-	1,698,650	1,698,650
Total Other Financing Sources and Uses	(3,210,236)	1,929,716	315,565	1,679,170	714,215
Net Change in Fund Balances	16,981,874	883,631	2,837,262	(2,417,446)	18,285,321
Fund Balances, July 1, 2015	24,101,853	13,276,724	13,199,393	21,445,205	72,023,175
Fund Balances, June 30, 2016	\$ 41,083,727	\$ 14,160,355	\$ 16,036,655	\$ 19,027,759	\$ 90,308,496

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, 2016

Total net change in fund balances - governmental funds \$ 18,285,321

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	4,841,963	
Depreciation expense	<u>(10,723,641)</u>	
Net:		(5,881,678)

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: (226,109)

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: (108,219)

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: 14,870,363

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: (2,018,877)

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: 28,351

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: (20,975,120)

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: 3,828,977

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: 813,498

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: (178,208)

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: 885,058

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. 2,000,316

Change in net position of governmental activities \$ 11,323,673

COLTON JOINT UNIFIED SCHOOL DISTRICT
Statement of Net Position – Proprietary Fund
June 30, 2016

	Governmental Activities: <u>Internal Service Fund</u>
ASSETS	
Cash	\$ 14,667,586
Receivables from other funds	1,456,891
Other receivables	<u>25,479</u>
Total assets	<u>16,149,956</u>
LIABILITIES	
Accounts payable and accrued liabilities	208,303
Payables to other funds	545,638
Non-current liabilities:	
Estimated claims and IBNR liability	<u>10,021,322</u>
Total liabilities	<u>10,775,263</u>
NET POSITION	
Unrestricted	<u>5,374,693</u>
Total net position	<u>\$ 5,374,693</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, 2016*

	Governmental Activities: Internal Service Fund
OPERATING REVENUES	
Charges to other funds	\$ 4,666,893
Other local revenues	313,253
Total operating revenues	<u>4,980,146</u>
OPERATING EXPENSES	
Payroll costs	2,097,067
Materials and supplies	30,678
Services and other operating expenses	<u>2,225,540</u>
Total operating expenses	<u>4,353,285</u>
Operating income (loss)	<u>626,861</u>
NON-OPERATING REVENUES	
Interest income	73,455
Interfund transfers in	<u>1,300,000</u>
Total non-operating revenues	<u>1,373,455</u>
Change in net position	2,000,316
Net position, July 1, 2015	<u>3,374,377</u>
Net position, June 30, 2016	<u>\$ 5,374,693</u>

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

	Governmental Activities:
	Internal Service Fund
	<u> </u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from assessments made to other funds	\$ 5,651,144
Cash received from all other local sources	348,221
Cash payments to employees for services	(2,097,067)
Cash payments to other suppliers for goods and services	(30,678)
Cash payments for insurance premiums and claims	<u>(1,666,406)</u>
Net cash provided by operating activities	<u>2,205,214</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	<u>73,455</u>
CASH FLOWS FROM NON-OPERATING ACTIVITIES	
Interfund transfers in	<u>1,300,000</u>
Net increase in cash	3,578,669
Cash, July 1, 2015	<u>11,088,917</u>
Cash, June 30, 2016	<u>\$ 14,667,586</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:	
Operating income (loss)	\$ 626,861
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Changes in operating assets and liabilities:	
Decrease in operating receivables	34,968
Decrease in due from other funds	1,059,568
Increase in accounts payable	13,496
Increase in due to other funds	<u>470,321</u>
Net cash provided by operating activities	<u>\$ 2,205,214</u>

COLTON JOINT UNIFIED SCHOOL DISTRICT
Statement of Fiduciary Net Position
June 30, 2016

	Agency Funds		
	Debt Service Fund for Blended Component Units	Student Body Funds	Total
Assets			
Cash	\$ 3,392,411	\$ 802,031	\$ 4,194,442
Investments	828,906	-	828,906
Other assets	-	14,437	14,437
Inventories	-	53,508	53,508
Total Assets	<u>\$ 4,221,317</u>	<u>\$ 869,976</u>	<u>\$ 5,091,293</u>
Liabilities			
Due to bondholders	\$ 4,221,317	-	\$ 4,221,317
Due to student groups	-	869,976	869,976
Total Liabilities	<u>\$ 4,221,317</u>	<u>\$ 869,976</u>	<u>\$ 5,091,293</u>

COLTON JOINT UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2016

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.

COLTON JOINT UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation, Basis of Accounting

1. Basis of Presentation

Government-Wide Financial Statements

The statement of net position and the statement of activities display information about the primary government (the District) and its component units. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements

The fund financial statements provide information about the District's funds, including its fiduciary funds (and blended component units). Separate statements for each fund category - *governmental*, *proprietary*, and *fiduciary* - are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

Major Governmental Funds

The District reports the following major governmental funds:

General Fund: This fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

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, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

1. Basis of Presentation (continued)

Non-Major Governmental Funds

The District reports the following non-major governmental funds:

Special Revenue Funds:

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:

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.

County School Facilities Fund: This fund is used to account for state apportionments provided for modernization of school facilities under SB50.

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. 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.

COLTON JOINT UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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, 2016

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 fixed assets are recorded at their estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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, 2016

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 amount on refunding, which resulted from the difference in the carrying value of refunded debt and its reacquisition price. This amount is shown as deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. The District has one item that is reported as a deferred inflow of resource. This 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, 2016

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, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

9. Net Position (continued)

- **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 governing board adopted a minimum fund balance policy for the General Fund in order to protect the District against revenue shortfalls or unpredicted on-time expenditures. The policy requires a reserve for economic uncertainties consisting of unassigned amounts equal to no less than three percent of General Fund expenditures and other financing uses.

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, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. New GASB Pronouncements

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

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

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

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

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

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

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

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

COLTON JOINT UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2016

NOTE 2 – CASH AND INVESTMENTS

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

	Governmental Activities			Fiduciary Funds
	Governmental Funds	Proprietary Fund	Total	
Pooled Funds:				
Cash in county treasury	\$ 99,318,068	\$ 14,592,586	\$ 113,910,654	\$ 3,392,411
Deposits:				
Cash on hand and in banks	5,000	-	5,000	802,031
Cash in revolving fund	75,000	-	75,000	-
Cash with fiscal agent	-	75,000	75,000	-
Total Deposits	80,000	75,000	155,000	802,031
Total Cash	\$ 99,398,068	\$ 14,667,586	\$ 114,065,654	\$ 4,194,442
Investments:				
U.S. Bank - Money Market	\$ 4,854,137	\$ -	\$ 4,854,137	\$ 828,906
Local Agency Investment Fund (LAIF)	127,564	-	127,564	-
Total Investments	\$ 4,981,701	\$ -	\$ 4,981,701	\$ 828,906

Pooled Funds

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

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

In accordance with applicable state laws, the County Treasurer may invest in derivative securities with the State of California. However, at June 30, 2016, the County Treasurer has represented that the Pooled Investment Fund contained no derivatives or other investments with similar risk profiles.

Custodial Credit Risk – Deposits

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

COLTON JOINT UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2016

NOTE 2 – CASH AND INVESTMENTS (continued)

Custodial Credit Risk – Deposits (continued)

As of June 30, 2016, \$734,601 of the District’s bank balance was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution’s trust department or agency, but not in the name of the District.

Investments - Interest Rate Risk

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

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

	Fair Value	Maturity	
		Less Than One Year	One Year Through Five Years
Investment maturities:			
U.S. Bank - Money Market	\$ 5,683,043	\$ 5,683,043	\$ -
Local Agency Investment Fund (LAIF)	127,564	127,564	-
Total Investments	\$ 5,810,607	\$ 5,810,607	\$ -

Investments - Credit Risk

The District’s investment policy limits investment choices to obligations of local, state and federal agencies, commercial paper, certificates of deposit, repurchase agreements, corporate notes, banker acceptances, and other securities allowed by State Government Code Section 53600. At June 30, 2016, all investments represented governmental securities which were issued, registered and held by the District’s agent in the District’s name.

Investments - Concentration of Credit Risk

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

U.S. Bank - Money Market	98%
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COLTON JOINT UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2016

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2016, consisted of the following:

	General Fund	Capital Facilities Fund	Non-Major Governmental Funds	Total Governmental Funds	Proprietary Fund
Federal Government:					
Categorical aid programs	\$ 4,767,583	\$ -	\$ 1,827,719	\$ 6,595,302	\$ -
State Government:					
Lottery	2,537,701	-	-	2,537,701	-
Special education	1,098,915	-	-	1,098,915	-
Categorical aid programs	173,932	-	159,446	333,378	-
Local:					
Interest	86,021	23,241	8,709	117,971	25,479
Special education	326,730	-	-	326,730	-
Miscellaneous	416,552	-	-	416,552	1,456,891
Total	<u>\$ 9,407,434</u>	<u>\$ 23,241</u>	<u>\$ 1,995,874</u>	<u>\$ 11,426,549</u>	<u>\$ 1,482,370</u>

NOTE 4 – INTERFUND TRANSACTIONS

A. Balances Due To/From Other Funds

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

General Fund due to Cafeteria Fund for overcharged employee costs	\$ 19,753
Child Development Fund due to General Fund for indirect costs	65,331
Cafeteria Fund due to General Fund for benefit and liability transfer	95,647
Building Fund due to General Fund for benefit and liability transfer	<u>2,386</u>
Total	<u>\$ 183,117</u>

COLTON JOINT UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
 June 30, 2016

NOTE 4 – INTERFUND TRANSACTIONS (continued)

B. Transfers To/From Other Funds

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

General Fund transfer to Cafeteria Fund for freezer project and to correct balances	\$	(19,480)
General Fund transfer to Capital Facilities Fund for a transfer of RDA funds		1,929,716
General Fund transfer to Self-Insurance Fund for retiree benefit costs		<u>1,300,000</u>
Total	<u>\$</u>	<u>3,210,236</u>

NOTE 5 – FUND BALANCES

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

	General 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	179,126	-	-	55,075	234,201
Prepaid expenditures	120,761	-	-	-	120,761
Total Nonspendable	<u>349,887</u>	<u>-</u>	<u>-</u>	<u>80,075</u>	<u>429,962</u>
Restricted:					
Categorical programs	8,998,619	-	-	1,803,674	10,802,293
Capital projects	-	14,160,355	-	17,144,010	31,304,365
Debt service	-	-	16,036,655	-	16,036,655
Total Restricted	<u>8,998,619</u>	<u>14,160,355</u>	<u>16,036,655</u>	<u>18,947,684</u>	<u>58,143,313</u>
Assigned:					
Other assignments	14,617,789	-	-	-	14,617,789
Total Assigned	<u>14,617,789</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,617,789</u>
Unassigned:					
Reserve for economic uncertainties	7,400,535	-	-	-	7,400,535
Remaining unassigned balances	9,716,897	-	-	-	9,716,897
Total Unassigned	<u>17,117,432</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,117,432</u>
Total	<u>\$ 41,083,727</u>	<u>\$ 14,160,355</u>	<u>\$ 16,036,655</u>	<u>\$ 19,027,759</u>	<u>\$ 90,308,496</u>

COLTON JOINT UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
 June 30, 2016

NOTE 6 – CAPITAL ASSETS AND DEPRECIATION

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

	Balance, July 1, 2015	Additions	Retirements	Balance, June 30, 2016
Capital assets not being depreciated:				
Land	\$ 39,490,219	\$ -	\$ 226,109	\$ 39,264,110
Construction in progress	44,074,139	1,923,302	1,139,820	44,857,621
Total capital assets not being depreciated	<u>83,564,358</u>	<u>1,923,302</u>	<u>1,365,929</u>	<u>84,121,731</u>
Capital assets being depreciated:				
Improvement of sites	194,761,130	35,530	-	194,796,660
Buildings	202,503,475	2,745,898	-	205,249,373
Equipment	21,124,150	1,277,053	-	22,401,203
Total capital assets being depreciated	<u>418,388,755</u>	<u>4,058,481</u>	<u>-</u>	<u>422,447,236</u>
Accumulated depreciation for:				
Improvement of sites	(18,158,221)	(4,496,155)	-	(22,654,376)
Buildings	(81,824,293)	(5,557,952)	-	(87,382,245)
Equipment	(17,260,097)	(669,534)	-	(17,929,631)
Total accumulated depreciation	<u>(117,242,611)</u>	<u>(10,723,641)</u>	<u>-</u>	<u>(127,966,252)</u>
Total capital assets being depreciated, net	<u>301,146,144</u>	<u>(6,665,160)</u>	<u>-</u>	<u>294,480,984</u>
Governmental activity capital assets, net	<u>\$ 384,710,502</u>	<u>\$ (4,741,858)</u>	<u>\$ 1,365,929</u>	<u>\$ 378,602,715</u>

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

Instruction	\$ 8,686,150
School Site Administration	428,945
Food Services	965,128
All Other Pupil Services	214,473
Ancillary Services	428,945
Total	<u><u>\$ 10,723,641</u></u>

NOTE 7 – GENERAL LONG-TERM DEBT

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

	Balance, July 1, 2015	Additions	Deductions	Balance, June 30, 2016	Amount Due Within One Year
General Obligation Bonds:					
Principal repayments	\$ 173,651,964	\$ 19,010,000	\$ 14,329,949	\$ 178,332,015	\$ 4,112,186
Accreted interest component	23,307,710	5,020,628	8,849,605	19,478,733	447,814
Unamortized issuance premium	9,817,637	1,965,120	813,498	10,969,259	862,626
Total - Bonds	<u>206,777,311</u>	<u>25,995,748</u>	<u>23,993,052</u>	<u>208,780,007</u>	<u>5,422,626</u>
Financing Lease	3,378,942	-	525,414	2,853,528	539,963
Capital Leases	30,000	-	15,000	15,000	15,000
Compensated Absences	1,610,840	178,208	-	1,789,048	-
Other Postemployment Benefits	14,023,560	2,018,877	-	16,042,437	-
Net Pension Liability	136,151,208	60,034,512	-	196,185,720	-
Totals	<u>\$ 361,971,861</u>	<u>\$ 88,227,345</u>	<u>\$ 24,533,466</u>	<u>\$ 425,665,740</u>	<u>\$ 5,977,589</u>

COLTON JOINT UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2016

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, 2016, 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 \$1,019,420 remain to be amortized as of June 30, 2016.

2016 Refunding General Obligation Bonds

On February 25, 2016, the District issued \$19,010,000 of General Obligation Refunding Bonds. The bonds bear fixed interest rates ranging between 3.0% and 5.0% with annual maturities from February 1, 2027 through February 1, 2036. The net proceeds of \$20,659,555 (after premiums of \$1,965,120 and issuance costs of \$315,564) were used to prepay a portion of the District's outstanding Election of 2001 General Obligation Bonds, Series C.

COLTON JOINT UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
 June 30, 2016

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

A. General Obligation Bonds (continued)

2016 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. As of June 30, 2016, the principal balance outstanding on the defeased debt was fully paid.

The refunding decreased the District’s total debt service payments by \$17,266,073. The transaction resulted in an economic gain (difference between the present value of the debt service on the old and the new bonds) of \$8,426,239.

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

Description	Issue Date	Maturity Date	Interest Rate	Original Issue	Balance, July 1, 2015	Additions	Deletions	Balance, June 30, 2016
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	13,262,151	-	12,121,746	1,140,405
Election of 2008 (Measure G)								
Series A	10/15/2009	8/1/2034	4.50% - 9.00%	48,999,050	47,461,728	-	404,230	47,057,498
Series B	8/31/2010	8/1/2046	5.00%-12.00%	41,938,348	41,905,359	-	33,973	41,871,386
Series C	7/7/2011	8/1/2026	5.458%-6.008%	11,900,000	11,900,000	-	-	11,900,000
Refunding Bonds								
2012 Ref.	5/31/2012	8/1/2026	2.00%-5.00%	22,190,000	19,345,000	-	1,205,000	18,140,000
2013 Ref.	5/1/2013	8/1/2027	2.00%-5.00%	38,625,000	37,780,000	-	565,000	37,215,000
2016 Ref.	2/25/2016	2/1/2036	3.00%-5.00%	19,010,000	-	19,010,000	-	19,010,000
					<u>\$ 173,651,964</u>	<u>\$ 19,010,000</u>	<u>\$ 14,329,949</u>	<u>\$ 178,332,015</u>
Accreted Interest								
Measure B, Series B				\$ 1,972,304	\$ 267,064	\$ -	\$ -	\$ 2,239,368
Measure B, Series C				8,559,763	1,350,089	8,537,808		1,372,044
Measure G, Series A				1,596,971	369,263	285,770		1,680,464
Measure G, Series B				11,178,672	3,034,212	26,027		14,186,857
					<u>\$ 23,307,710</u>	<u>\$ 5,020,628</u>	<u>\$ 8,849,605</u>	<u>\$ 19,478,733</u>

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

Fiscal Year	Principal	Interest	Total
2016-17	\$ 4,112,186	\$ 7,068,649	\$ 11,180,835
2017-18	4,302,363	7,124,195	11,426,558
2018-19	4,568,634	7,158,525	11,727,159
2019-20	4,740,066	7,204,092	11,944,158
2020-21	5,898,821	6,292,137	12,190,958
2021-26	41,962,833	28,899,979	70,862,812
2026-31	41,895,072	29,753,944	71,649,016
2031-36	41,167,671	17,079,193	58,246,864
2036-41	12,282,769	67,387,696	79,670,465
2041-46	10,691,600	77,748,991	88,440,591
2046-47	6,710,000	335,500	7,045,500
Total	<u>\$ 178,332,015</u>	<u>\$ 256,052,901</u>	<u>\$ 434,384,916</u>

COLTON JOINT UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2016

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

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:

Fiscal Year	Principal	Interest	Total
2016-17	\$ 539,963	\$ 74,760	\$ 614,723
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	\$ 2,853,528	\$ 220,083	\$ 3,073,611

C. Capital Leases

The District has entered into agreements to lease various facilities and equipment. Such agreements are, in substance, purchases (capital leases) and are reported as capital lease obligations.

Lease payments will be required as follows:

Fiscal Year	Principal
2016-17	\$ 15,000

D. 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 Mark-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 \$9,670,000 as of June 30, 2016, 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, 2016

NOTE 8 – JOINT VENTURES

The District is a member of the Southern California Schools Risk Management (SCSRM) public entity risk pool and the High Desert and Inland Employee/Employer Public Joint Labor Management Trust (HD&IE/ET). The District pays an annual premium to SCSRM for property and liability coverage. Payments for health benefit coverage are paid to HD&IE/ET. 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. Audited 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, 2016, the District had commitments with respect to unfinished capital projects of \$1,524,539 to be paid from a combination of State and local funds.

C. Litigation

The District is involved in certain legal matters that arose out of the normal course of business. The District has not accrued a liability for any potential litigation against it because it does not meet the criteria to be considered a liability at June 30, 2016.

D. Operating Leases

The District is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations. These leases have, therefore, not been accounted for as capital leases. The agreements contain a termination clause providing for cancellation after a specified number of days written notice to lessees, but it is unlikely that the District will cancel the agreements prior to the expiration date. Future minimum lease payments under these agreements are as follows:

Year Ending, June 30,	Lease Payment
2017	\$ 123,000

COLTON JOINT UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2016

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, 2016, the District participated in the Southern California Schools Risk Management (SCSRM) 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.

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, 2014 to June 30, 2016:

Liability Balance, July 1, 2014	\$	6,577,886
Claims and changes in estimates		9,058,913
Claims payments		<u>(5,615,477)</u>
Liability Balance, June 30, 2015		10,021,322
Claims and changes in estimates		2,225,540
Claims payments		<u>(2,225,540)</u>
Liability Balance, June 30, 2016	\$	<u><u>10,021,322</u></u>
Assets available to pay claims at June 30, 2016	\$	<u><u>16,149,956</u></u>

COLTON JOINT UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2016

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

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

COLTON JOINT UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2016

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 percent per year.

Contributions

Active CalSTRS plan members under 2% at 60 were required to contribute 9.2% and plan members under 2% at 62 were required to contribute 8.56% of their salary in 2015-16. The required employer contribution rate for fiscal year 2015-16 was 10.73% of annual payroll. The contribution requirements of the plan members are established by State statute. Active CalPERS plan members are required to contribute 7.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The required employer contribution for fiscal year 2015-16 was 11.847%. The contribution requirements of the plan members are established by State statute.

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

	CalSTRS	CalPERS
Employer contributions	\$ 11,828,681	\$ 4,473,937
Employer contribution paid by State	\$ 6,424,865	\$ -
Employee contributions paid by employer	\$ -	\$ -

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

As of June 30, 2016, the District reported net pension liabilities for its proportionate shares of the net pension liability of each Plan as follows:

	<u>Proportionate Share of Net Pension Liability</u>
CalSTRS	\$ 151,479,000
CalPERS	44,706,720
Total Net Pension Liability	<u>\$ 196,185,720</u>

COLTON JOINT UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2016

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, 2015, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014, rolled forward to June 30, 2015, using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability for each Plan as of June 30, 2014 and 2015, was as follows:

	CalSTRS*	CalPERS
Proportion - June 30, 2014	0.1770%	0.2882%
Proportion - June 30, 2015	0.2250%	0.3033%
Change - Increase (Decrease)	0.0480%	0.0151%

For the year ended June 30, 2016, the District recognized pension expense of \$15,198,538. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 16,302,618	\$ -
Differences between actual and expected experience	2,555,055	(2,531,250)
Changes in assumptions	-	(2,746,905)
Adjustment due to differences in proportions	37,044,165	-
Net differences between projected and actual earnings on plan investments	7,342,602	(21,221,399)
	<u>\$ 63,244,440</u>	<u>\$ (26,499,554)</u>

COLTON JOINT UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2016

NOTE 11 – PENSION PLANS (continued)

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

The total amount of \$16,302,618 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30,	Amount
2017	\$ 1,497,869
2018	980,956
2019	4,529,812
2020	(361,607)
2021	(361,607)
Thereafter	-

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

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

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

Discount Rate – for CalSTRS

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

COLTON JOINT UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2016

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

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

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

The long-term expected real rates of return by asset class can be found in CalPERS’ Comprehensive Annual Financial Report for the fiscal year ended June 30, 2015.

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

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

COLTON JOINT UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2016

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	\$ 228,721,500	\$ 72,763,908
Current Discount Rate	7.60%	7.65%
Net Pension Liability	\$ 151,479,000	\$ 44,706,720
1% Increase	8.60%	8.65%
Net Pension Liability	\$ 87,284,250	\$ 21,375,289

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, 2016, the District reported a payable of \$897,305 and \$113,571 for the outstanding amount of contributions to the CalSTRS and CalPERS pension plans, respectively, required for the fiscal year ended June 30, 2016.

COLTON JOINT UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2016

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. Membership of the Plan consists of 158 retirees and beneficiaries currently receiving benefits and 2,290 active plan members.

The contribution requirements of plan members and the District are established and may be amended by the District and the Teachers Association (CEA), 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 2015-16, the District contributed \$1,810,558 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)	\$	4,040,536
Interest on net OPEB obligation		701,178
Adjustment to ARC		(912,279)
Annual OPEB cost		<u>3,829,435</u>
Contributions made:		
Pay-as-you-go premiums		<u>(1,810,558)</u>
Increase in net OPEB obligation		2,018,877
Net OPEB obligation - July 1, 2015		<u>14,023,560</u>
Net OPEB obligation - June 30, 2016	\$	<u><u>16,042,437</u></u>

COLTON JOINT UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2016

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (continued)

Annual OPEB Cost and Net OPEB Obligation (continued)

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2015-16 and the two preceding years are as follows:

Year Ended June 30,	Annual OPEB Cost	Actual Employer Contribution	Percentage Contributed	Net OPEB Obligation
2014	\$ 3,936,390	\$ 1,860,677	47%	\$ 11,854,633
2015	4,023,035	1,854,108	46%	14,023,560
2016	3,829,435	1,810,558	47%	16,042,437

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.

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%

COLTON JOINT UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2016

NOTE 13 - SUBSEQUENT EVENTS

On August 2, 2016, the District issued \$24,645,000 in General Obligation Bonds, Series D and \$51,540,000 in 2016 General Obligation Refunding Bonds, Series B. The refunding bonds were issued to advance refund a portion of the District's outstanding Election of 2008 Series A and Series B bonds.

Required Supplementary Information

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

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget - Pos (Neg)
	Original	Final		
Revenues				
LCFF Sources	\$ 205,604,076	\$ 203,415,652	\$ 203,594,548	\$ 178,896
Federal Sources	13,072,375	14,245,313	12,307,036	(1,938,277)
Other State Sources	20,725,063	22,152,292	31,047,897	8,895,605
Other Local Sources	10,114,673	11,283,875	11,434,827	150,952
Total Revenues	<u>249,516,187</u>	<u>251,097,132</u>	<u>258,384,308</u>	<u>7,287,176</u>
Expenditures				
Current:				
Certificated Salaries	113,693,963	114,253,980	110,956,260	3,297,720
Classified Salaries	35,537,954	34,248,319	34,231,903	16,416
Employee Benefits	52,077,936	50,358,341	54,545,066	(4,186,725)
Books and Supplies	12,381,846	16,025,639	13,042,300	2,983,339
Services and Other Operating Expenditures	21,392,913	25,013,091	21,317,494	3,695,597
Transfers of Indirect Costs	(764,743)	(772,421)	(370,060)	(402,361)
Capital Outlay	1,726,000	1,196,515	1,093,885	102,630
Other Outgo	3,364,725	3,064,725	3,375,350	(310,625)
Total Expenditures	<u>239,410,594</u>	<u>243,388,189</u>	<u>238,192,198</u>	<u>5,195,991</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>10,105,593</u>	<u>7,708,943</u>	<u>20,192,110</u>	<u>12,483,167</u>
Other Financing Sources and Uses				
Interfund Transfers Out	<u>(1,300,000)</u>	<u>(3,475,000)</u>	<u>(3,210,236)</u>	<u>264,764</u>
Total Other Financing Sources and Uses	<u>(1,300,000)</u>	<u>(3,475,000)</u>	<u>(3,210,236)</u>	<u>264,764</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>8,805,593</u>	<u>4,233,943</u>	<u>16,981,874</u>	<u>12,747,931</u>
Fund Balances, July 1, 2015	<u>21,539,107</u>	<u>24,101,853</u>	<u>24,101,853</u>	<u>-</u>
Fund Balances, June 30, 2016	<u>\$ 30,344,700</u>	<u>\$ 28,335,796</u>	<u>\$ 41,083,727</u>	<u>\$ 12,747,931</u>

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

Actuarial Valuation Date	Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
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, 2016

	Last Ten Fiscal Years*	
	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability (asset):		
CalSTRS	0.2250%	0.1770%
CalPERS	0.3033%	0.2882%
District's proportionate share of the net pension liability (asset):		
CalSTRS	\$ 151,479,000	\$ 103,433,490
CalPERS	\$ 44,706,720	\$ 32,717,719
District's covered-employee payroll:		
CalSTRS	\$ 100,580,991	\$ 90,159,745
CalPERS	\$ 33,504,443	\$ 30,233,421
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll:		
CalSTRS	150.60%	114.72%
CalPERS	133.44%	108.22%
Plan fiduciary net position as a percentage of the total pension liability:		
CalSTRS	74.0%	76.5%
CalPERS	79.4%	83.4%

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

COLTON JOINT UNIFIED SCHOOL DISTRICT
Schedule of Contributions
For the Fiscal Year Ended June 30, 2016

Last Ten Fiscal Years*

	<u>2015</u>	<u>2014</u>
Actuarially determined contribution:		
CalSTRS	\$ 8,931,592	\$ 7,438,179
CalPERS	\$ 3,943,808	\$ 3,459,308
Contributions in relation to the actuarially determined contribution:		
CalSTRS	\$ 8,931,592	\$ 7,438,179
CalPERS	<u>\$ 3,943,808</u>	<u>\$ 3,459,308</u>
Contribution deficiency (excess):		
CalSTRS	<u>\$ -</u>	<u>\$ -</u>
CalPERS	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll:		
CalSTRS	\$ 100,580,991	\$ 90,159,745
CalPERS	\$ 33,504,443	\$ 30,233,421
Contributions as a percentage of covered-employee payroll:		
CalSTRS	8.88%	8.25%
CalPERS	11.771%	11.442%

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

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

NOTE 1 – PURPOSE OF SCHEDULES

Budgetary Comparison Schedules

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

Schedule of Funding Progress

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

Schedule of Proportionate Share of the Net Pension Liability

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

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

Schedule of Contributions

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

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

NOTE 2 – SUMMARY OF CHANGES OF BENEFITS OR ASSUMPTIONS

Benefit Changes

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

Changes of Assumptions

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

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

NOTE 3 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS

At June 30, 2016, the District incurred the following excess of expenditures over appropriations in individual major funds presented in the Budgetary Comparison Schedule:

<u>Appropriations Category</u>	<u>Excess Expenditures</u>
Employee Benefits	\$ 4,186,725
Transfers of Indirect costs	402,361
Other Outgo	310,625

Supplementary Information

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COLTON JOINT UNIFIED SCHOOL DISTRICT
Local Educational Agency Organization Structure
June 30, 2016

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
Mrs. Patt Haro	President	2016
Mr. Dan Flores	Vice-President	2018
Mr. Randall Cenicerros	Clerk	2018
Mr. Frank A. Ibarra	Member	2016
Mr. Pilar Tabera	Member	2018
Mr. Kent Taylor	Member	2016
Mrs. Joanne E. Thoring-Ojeda	Member	2018

DISTRICT ADMINISTRATORS

Mr. Jerry Almendarez,
Superintendent

Mr. Frank Miranda, Ed.D.,
Acting 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, 2016

	<u>Second Period Report</u>	<u>Annual Report</u>
	Certificate No. (5FB9ADF8)	Certificate No. (71E61579)
Regular ADA:		
Transitional Kindergarten through Third	6,757.05	6,743.40
Fourth through Sixth	5,340.64	5,348.88
Seventh through Eighth	3,641.08	3,637.09
Ninth through Twelfth	6,250.81	6,144.14
	<u>21,989.58</u>	<u>21,873.51</u>
Special Education, Nonpublic, Nonsectarian Schools:		
Transitional Kindergarten through Third	1.11	1.25
Fourth through Sixth	0.10	0.13
Seventh through Eighth	1.26	1.21
Ninth through Twelfth	6.82	7.35
	<u>9.29</u>	<u>9.94</u>
Total ADA	<u><u>21,998.87</u></u>	<u><u>21,883.45</u></u>

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

<u>Grade Level</u>	<u>Required</u>	<u>2015-16 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Status</u>
Kindergarten	36,000	36,900	180	Complied
Grade 1	50,400	54,916	180	Complied
Grade 2	50,400	54,916	180	Complied
Grade 3	50,400	54,916	180	Complied
Grade 4	54,000	54,916	180	Complied
Grade 5	54,000	54,916	180	Complied
Grade 6	54,000	54,916	180	Complied
Grade 7	54,000	64,226	180	Complied
Grade 8	54,000	64,226	180	Complied
Grade 9	64,800	65,280	180	Complied
Grade 10	64,800	65,280	180	Complied
Grade 11	64,800	65,280	180	Complied
Grade 12	64,800	65,280	180	Complied

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

General Fund	(Budget) 2017 ²	2016	2015	2014
Revenues and other financing sources	\$ 255,987,026	\$ 258,384,308	\$ 218,145,239	\$ 190,276,278
Expenditures	261,232,991	238,192,198	214,908,755	187,401,412
Other uses and transfers out	5,600,000	3,210,236	4,556,216	1,209,264
Total outgo	266,832,991	241,402,434	219,464,971	188,610,676
Change in fund balance (deficit)	(10,845,965)	16,981,874	(1,319,732)	1,665,602
Ending fund balance	\$ 30,237,762	\$ 41,083,727	\$ 24,101,853	\$ 25,421,585
Available reserves ¹	\$ 21,485,509	\$ 17,117,432	\$ 6,443,595	\$ 11,894,407
Available reserves as a percentage of total outgo	8.1%	7.1%	2.9%	6.3%
Total long-term debt	\$ 419,688,151	\$ 425,665,740	\$ 361,971,861	\$ 397,208,981
Average daily attendance at P-2	21,834	21,999	22,109	22,344

The General Fund balance has increased by \$15,662,142 over the past two years. The fiscal year 2016-17 adopted budget projects a decrease of \$10.8 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 2016-17 fiscal year. Long-term debt has increased by \$28.5 million over the past two years.

Average daily attendance has decreased by 345 over the past two years. A decrease of 165 ADA is anticipated during fiscal year 2016-17.

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, 2016.

COLTON JOINT UNIFIED SCHOOL DISTRICT

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

	<u>Cafeteria Fund</u>
June 30, 2016, annual financial and budget report (SACS) fund balances	\$ 1,710,840
Adjustments and reclassifications:	
Increasing (decreasing) the fund balance:	
Accounts receivable overstated	<u>(53,300)</u>
June 30, 2016, audited financial statement fund balances	<u>\$ 1,657,540</u>

COLTON JOINT UNIFIED SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2016

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Cluster Expenditures	Total 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	\$ 1,615,709	
National School Lunch Program	10.555	13524	8,261,151	
Summer Food Service Program for Children	10.559	13004	206,034	
USDA Donated Foods	10.555	N/A	<u>689,213</u>	
Total Child Nutrition Cluster				<u>\$ 10,772,107</u>
Total U.S. Department of Agriculture				<u>10,772,107</u>
U.S. Department of Defense:				
Reserve Officer Training Corps (ROTC)	12.000	N/A		<u>87,484</u>
Total U.S. Department of Defense				<u>87,484</u>
U.S. Department of Education:				
Passed through California Dept. of Education (CDE):				
No Child Left Behind (NCLB):				
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329		6,266,739
Title II, Part A, Improving Teacher Quality Local Grants	84.367	14344		872,340
English Language Acquisition State Grants Cluster				
Title III, Limited English Proficiency	84.365	14346	8,700	
Title III, Immigration Education	84.365	15146	<u>537,600</u>	
Total English Language Acquisition State Grants Cluster				546,300
Carl Perkins Act - Secondary	84.048	14894		37,254
Special Education Cluster (IDEA):				
Passed through San Bernardino County Superintendent of Schools East Valley SELPA:				
Local Assistance Entitlement	84.027	13379	3,551,640	
Local Assistance, Part B, Sec 611, Private School ISPs	84.027	10115	31,259	
Preschool Local Entitlement, Part B, Sec 611	84.027A	13682	152,138	
Mental Health Allocation Plan, Part B, Sec 611	84.027A	14468	255,569	
Preschool Grants, Part B, Sec 619	84.173	13430	81,027	
Preschool Staff Development, Part B, Sec 619	84.173A	13431	<u>657</u>	
Total Special Education Cluster				<u>4,072,290</u>
Total U.S. Department of Education				<u>11,794,923</u>
U.S. Department of Health & Human Services:				
Passed through California Dept. of Education:				
Child Care and Development Fund Cluster	93.596	13609		119,332
Medi-Cal Billing Option	93.778	10013		545,517
Direct Federal to local program:				
Head Start	93.600	10016		<u>984,338</u>
Total U.S. Department of Health & Human Services				<u>1,649,187</u>
Total Expenditures of Federal Awards				<u>\$ 24,303,701</u>

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, 2016

	Child Development Fund	Cafeteria Fund	Building 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	\$ 199,056	\$ 58,418	\$ 10,638,015	\$ 3,976	\$ 1,702,839	\$ -	\$ 12,602,304
Investments	-	-	-	-	-	4,854,137	4,854,137
Accounts receivable	168,166	1,804,948	19,713	34	3,013	-	1,995,874
Due from other funds	-	19,753	-	-	-	-	19,753
Inventories	-	55,075	-	-	-	-	55,075
Total Assets	<u>\$ 367,222</u>	<u>\$ 1,938,194</u>	<u>\$ 10,657,728</u>	<u>\$ 4,010</u>	<u>\$ 1,705,852</u>	<u>\$ 4,854,137</u>	<u>\$ 19,527,143</u>
LIABILITIES AND FUND BALANCES							
Liabilities							
Accounts payable	\$ 72,653	\$ 185,007	\$ 75,331	\$ -	\$ -	\$ -	\$ 332,991
Due to other funds	65,331	95,647	2,386	-	-	-	163,364
Unearned revenue	3,029	-	-	-	-	-	3,029
Total Liabilities	<u>141,013</u>	<u>280,654</u>	<u>77,717</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>499,384</u>
Fund Balances							
Nonspendable	-	80,075	-	-	-	-	80,075
Restricted	226,209	1,577,465	10,580,011	4,010	1,705,852	4,854,137	18,947,684
Total Fund Balances	<u>226,209</u>	<u>1,657,540</u>	<u>10,580,011</u>	<u>4,010</u>	<u>1,705,852</u>	<u>4,854,137</u>	<u>19,027,759</u>
Total Liabilities and Fund Balances	<u>\$ 367,222</u>	<u>\$ 1,938,194</u>	<u>\$ 10,657,728</u>	<u>\$ 4,010</u>	<u>\$ 1,705,852</u>	<u>\$ 4,854,137</u>	<u>\$ 19,527,143</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, 2016

	Child Development Fund	Cafeteria Fund	Building 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	\$ 1,103,670	\$ 10,960,512	\$ -	\$ -	\$ -	\$ -	\$ 12,064,182
Other state sources	1,401,576	774,319	-	342	-	-	2,176,237
Other local sources	1,557	707,353	66,806	1,553	7,202	2,552	787,023
Total Revenues	2,506,803	12,442,184	66,806	1,895	7,202	2,552	15,027,442
EXPENDITURES							
Current:							
Instructional Services:							
Instruction	1,583,218	-	-	-	-	-	1,583,218
Instruction-Related Services:							
Supervision of instruction	59,073	-	-	-	-	-	59,073
School site administration	339,007	-	-	-	-	-	339,007
Pupil Support Services:							
Food services	74,745	13,741,577	-	-	-	-	13,816,322
All other pupil services	185,372	-	-	-	-	-	185,372
General Administration Services:							
Plant Services	154,451	49,133	-	-	-	-	203,584
Transfers of Indirect Costs	78,534	291,526	-	-	-	-	370,060
Capital Outlay	27,492	-	1,992,137	532,793	-	-	2,552,422
Debt Service:							
Principal	15,000	-	-	-	-	-	15,000
Total Expenditures	2,516,892	14,082,236	1,992,137	532,793	-	-	19,124,058
Excess (Deficiency) of Revenues Over (Under) Expenditures	(10,089)	(1,640,052)	(1,925,331)	(530,898)	7,202	2,552	(4,096,616)
OTHER FINANCING SOURCES (USES)							
Interfund transfers in	-	(19,480)	-	-	-	-	(19,480)
Proceeds from sale of property	-	-	-	-	1,698,650	-	1,698,650
Total Other Financing Sources and Uses	-	(19,480)	-	-	1,698,650	-	1,679,170
Net Change in Fund Balances	(10,089)	(1,659,532)	(1,925,331)	(530,898)	1,705,852	2,552	(2,417,446)
Fund Balances, July 1, 2015	236,298	3,317,072	12,505,342	534,908	-	4,851,585	21,445,205
Fund Balances, June 30, 2016	\$ 226,209	\$ 1,657,540	\$ 10,580,011	\$ 4,010	\$ 1,705,852	\$ 4,854,137	\$ 19,027,759

See accompanying note to supplementary information.

COLTON JOINT UNIFIED SCHOOL DISTRICT

Note to the Supplementary Information

June 30, 2016

NOTE 1 – PURPOSE OF SCHEDULES

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

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

Districts must maintain their instructional minutes at the 1986-87 requirement, as required by Education Code section 46201.

Schedule of Financial Trends and Analysis

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

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

Schedule of Expenditures of Federal Awards

The schedule of expenditures of Federal awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

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

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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, 2016, 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 October 24, 2016.

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

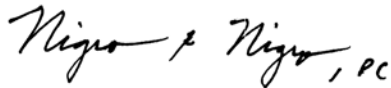
As part of obtaining reasonable assurance about whether Colton Joint Unified School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as Finding 2016-001.

Colton Joint Unified School District's Response to Finding

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

Purpose of this Report

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



Murrieta, California
October 24, 2016



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 *2015-16 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* that could have a direct and material effect on each of the Colton Joint Unified School District's state government programs as noted on the following page for the fiscal year ended June 30, 2016.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its State programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Colton Joint Unified School District's State programs based on our audit of the types of compliance requirements referred to below. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *2015-16 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to below occurred. An audit includes examining, on a test basis, evidence about 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 on the prior page, we selected and tested transactions and records to determine the District's compliance with the State laws and regulations applicable to the following items:

Description	Procedures Performed
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	No (see below)
Continuation Education	Yes
Instructional Time	Yes
Instructional Materials	Yes
Ratio of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	Not Applicable
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	Not Applicable
Middle or Early College High Schools	Not Applicable
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
Educator Effectiveness	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

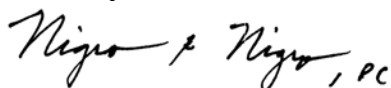
In our opinion, Colton Joint Unified School District complied, in all material respects, with the types of compliance requirements referred to above for the year ended June 30, 2016.

Other Matter

The results of our auditing procedures disclosed an instance of noncompliance with the compliance requirements referred to above, which is required to be reported in accordance with *2015-16 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, and which is described in the accompanying schedule of findings and questioned costs as Finding 2016-001.

District's Response to Finding

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



Murrieta, California
October 24, 2016



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

Board of Education
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, 2016. 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, 2016.

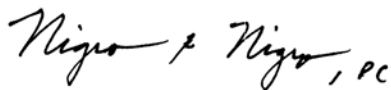
Report on Internal Control Over Compliance

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, as defined above. However, material weaknesses may exist that have not been identified.

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



Murrieta, California
October 24, 2016

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, 2016

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditor's 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 auditor's 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:							
<table> <thead> <tr> <th style="text-align: center;"><u>CFDA Numbers</u></th> <th style="text-align: center;"><u>Name of Federal Program or Cluster</u></th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">93.600</td> <td style="text-align: center;">Head Start</td> </tr> <tr> <td style="text-align: center;">84.010</td> <td style="text-align: center;">Title I, Part A</td> </tr> </tbody> </table>	<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>	93.600	Head Start	84.010	Title I, Part A	
<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>						
93.600	Head Start						
84.010	Title I, Part A						

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 auditor's 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, 2016

SECTION II - FINANCIAL STATEMENT FINDINGS

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

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

There were no financial statement findings in 2015-16.

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

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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

There were no federal award findings or questioned costs in 2015-16.

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

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

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

Finding 2016-001: Unduplicated Pupil Counts (40000)

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

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

Condition: We found 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.

Context: The errors are not isolated. We noted 7 exceptions out of 51 for the EL only testing. We selected an additional sample of 30 and noted 14 more exceptions.

Cause: EL students were not reclassified based on their CELDT scores based on their writing samples and determinations made by the teacher. Due to the nature of these assessments backup documentation to determine why the students were not reclassified was not properly retained.

Questioned Costs: \$19,259. This amount was determined by calculating the difference between the District’s original total LCFF revenues and the LCFF revenues adjusted for the decrease in the unduplicated pupil count.

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

Program/Site:	CALPADS	Adjusted based on EL status	Adjusted Total
Jurupa Vista Elementary	453	(3)	450
Ruth Grimes Elementary	563	(4)	559
Sycamore Hills Elementary	652	(4)	648
Cooley Ranch Elementary	518	(1)	517
Terrace Hills Middle	718	(1)	717
Colton Middle	914	(1)	913
Grand Terrace High	1,690	(3)	1,687
Washington High	99	(2)	97
Slover Mountain High (Continuation)	212	(2)	210
Aggregate remaining schools	13,441	-	13,441
District-wide	19,260	(21)	19,239

The enrollment count of 23,287 was not impacted as a result of the procedures performed.

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

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

Finding 2016-001: Unduplicated Pupil Counts (40000) (continued)

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

Views of Responsible Officials: The Education Service Division is developing procedures that will properly classify students in the future and eliminate the audit finding. CALPADS reports have been adjusted accordingly.

COLTON JOINT UNIFIED SCHOOL DISTRICT

Summary Schedule of Prior Audit Findings

For the Fiscal Year Ended June 30, 2016

Original Finding No.	Finding	Code	Recommendation	Current Status
<p><i>Finding 2015-1: CALPADS 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>During our testing of the free and reduced price meal eligible students reported in the CALPADS 1.17 and 1.18 reports, we noted that one student that was reported as qualifying for free or reduced priced meals should have been classified as paid, based on the household income on the application.</p>	<p>40000</p>	<p>We recommend that the District work with the Child Nutrition Services department to update the CALPADS system once all applications are received. Although there is a grace period recognized at a local level, the District should update CALPADS retroactively to reflect the current year application information in the reporting software. We also recommend that procedures are established to ensure that the student information system which is used for CALPADS reporting, is updated to reflect the changes made in the Child Nutrition Services internal system prior to the submission of the CALPADS report.</p>	<p>Implemented; However See Finding 2016-001.</p>
<p><i>Finding 2015-2: Kindergarten Continuance</i></p>	<p>California law provides that after a child has been lawfully admitted to a kindergarten and has attended for a year, the child shall be promoted to the first grade unless the school district and the child's parent/guardian agree to having the child continue to attend kindergarten for not longer than one additional year.</p>	<p>40000</p>	<p>The District has implemented the correct forms to be used in the 2015-16 school year and has asked the independent auditors to verify that the forms are correct. The District needs to ensure that all elementary schools are aware of the forms and discontinue use of the non-compliant forms.</p>	<p>Implemented.</p>

COLTON JOINT UNIFIED SCHOOL DISTRICT

Summary Schedule of Prior Audit Findings

For the Fiscal Year Ended June 30, 2016

Original Finding No.	Finding	Code	Recommendation	Current Status
<i>Finding 2015-2: Kindergarten Continuance (continued)</i>	<p>This rule applies whether a child begins kindergarten at the beginning of a school year or at some later date, so that a child who begins kindergarten in January, for example, shall be promoted the following January unless there is formal agreement to have him or her continue in kindergarten. Because kindergarten-age children often do not develop at steady or predictable rates, the California Department of Education recommends that approval for a child to continue not be given until near the anniversary of a child's admittance to kindergarten. (Education Code 46300(g)(1)).</p> <p>For one student in our sample of kindergarten students retained in 2014-15 at Woodrow Wilson Elementary and one student at Alice Birney Elementary, the school did not have the correct retention form on file.</p>			
<i>Finding 2015-3: School Accountability Report Card</i>	<p>In accordance with Education Code §33126, the school is to provide an accountability report card to include safety, cleanliness, and adequacy of school facilities, to include any needed maintenance to ensure good repair. The condition reported should be supported by the school's Facilities Inspection Tool (FIT), School Facilities Condition Evaluation as required by Education Code §17002. The governing board must publish the School Accountability Report Card (SARC) for each school by February 1 of each year.</p> <p>It was noted that the School Facility Repair Status on the SARC for Washington High School did not match the FIT form. The SARC noted 'Electrical' as Good, while the FIT form noted it as Fair.</p>	72000	We recommend that an employee verify the information presented in the SARC. This information is essential to present the image of the school fairly to the public.	Implemented.

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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, 2016, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted matters that are an opportunity for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated October 24, 2016, on the financial statements of Colton Joint Unified School District.

ASSOCIATED STUDENT BODY (ASB) FUNDS

Observation: In our test of cash disbursements at *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*.

Recommendation: Education Code Section 48933(b) requires all expenditures from ASB funds be authorized by a student representative, an advisor, and a district representative (usually a principal or vice-principal) prior to disbursing the funds. As a “best practice”, approval by required parties should be obtained before the actual commitment to purchase the items in order to ensure the expense is a proper use of student-body funds and falls within budgetary guidelines. 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 some of the disbursements tested lacked evidence of receipt of goods or services. Also, we were told that some part-time coaches have purchased items shipped directly to their home.

Recommendation: We recommend that the sites 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. Also, purchases should only be shipped to the school site.

ASSOCIATED STUDENT BODY (ASB) FUNDS (continued)

Observation: In our testing of cash receipts, some deposits tested lacked sufficient supporting documentation. The following exceptions were observed:

- **Bloomington High:** Two car wash fundraisers were conducted, and there was no tally sheet or customer list prepared to support the cash collected.
- **Colton High:** No documentation was observed for six of the ten deposits we sampled.

Without original supporting documentation, we could not verify whether all cash collected had been deposited intact and into the correct ASB accounts. Sound internal controls for handling cash discourage theft of ASB funds and protect those who handle the cash. It is important to tie all proceeds to the specific event from which they were generated and to ensure that all proceeds from an event are turned in and properly accounted for.

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

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

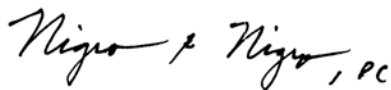
Recommendation: We recommend that the District emphasize to the school that bank reconciliations should be prepared preferably within two to three weeks after the bank statement is received from the bank.

DISTRICT OFFICE

Observation: The District has contracts with CSEA and ACE bargaining units that limit the maximum vacation carryover of up to 44 days and 320 hours respectively. During our test of the accrued vacation liability, we noted that there are 27 CSEA and 1 ACE members who have exceeded the maximum amount at June 30, 2016. Permitting employees to exceed the maximum vacation carryover creates an excess liability that will continue to grow. In addition, regular employee vacations are a good internal control.

Recommendation: The District should begin to enforce the maximum vacation carryover policy by not crediting additional vacation time to employees who already exceed the maximum amount. Also, those who have excess balances should work with District management to develop a plan to permit them to use their vacation time until it is within the allowed limits. The District should also consider the feasibility of paying off those excess balances.

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



Murrieta, California
October 24, 2016