

**COLTON JOINT UNIFIED
SCHOOL DISTRICT
AUDIT REPORT
For the Fiscal Year Ended
June 30, 2018**



COLTON JOINT UNIFIED SCHOOL DISTRICT

For the Fiscal Year Ended June 30, 2018

Table of Contents

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

REQUIRED SUPPLEMENTARY INFORMATION

Budgetary Comparison Schedule – General Fund.....	55
Schedule of Proportionate Share of the Net Pension Liability	56
Schedule of Pension Contributions.....	57
Schedule of Changes in the District's Total OPEB Liability and Related Ratios	58
Schedule of Changes in the District's Total OPEB Liability and Related Ratios-MPP Program.....	59
Notes to the Required Supplementary Information	60

SUPPLEMENTARY INFORMATION

Local Educational Agency Organization Structure	61
Schedule of Average Daily Attendance	62
Schedule of Instructional Time	63
Schedule of Financial Trends and Analysis.....	64
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements.....	65
Schedule of Expenditures of Federal Awards	66
Combining Financial Statements - Non-Major Governmental Funds:	
Combining Balance Sheet	67
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance.....	68
Note to the Supplementary Information.....	69

COLTON JOINT UNIFIED SCHOOL DISTRICT
For the Fiscal Year Ended June 30, 2018
Table of Contents

OTHER INDEPENDENT AUDITORS' REPORTS

Page

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.....70

Independent Auditors' Report on State Compliance72

Independent Auditors' Report on Compliance For Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance74

FINDINGS AND QUESTIONED COSTS

Schedule of Audit Findings and Questioned Costs:

 Summary of Auditors' Results76

 Current Year Audit Findings and Questioned Costs77

 Summary Schedule of Prior Audit Findings80

Management Letter81

Financial Section

(This page intentionally left blank)



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, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Colton Joint Unified School District, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 1.I. to the basic financial statements, the District has changed its method for accounting and reporting for postemployment benefits other than pensions during fiscal year 2017-18 due to the adoption of Governmental Accounting Standards Board Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions". The adoption of this standard required retrospective application resulting in a \$54,777,777 reduction of previously reported net position at July 1, 2017. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of proportionate share of the net pension liability, schedule of pension contributions, schedule of changes in the District's total OPEB liability and related ratios, and the notes to the required supplementary information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements. The supplementary information on pages 62 to 65, 67 to 68, and the schedule of expenditures of federal awards on page 66 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 61 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2018, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Nixon + Nixon, PC.

Murrieta, California
November 13, 2018

COLTON JOINT UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
 For the Fiscal Year Ended June 30, 2018

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, 2018. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- The District's financial status decreased overall as a result of this year's operations. Net position of governmental activities decreased by \$22.2 million, or 111.0%.
- Governmental expenses were about \$313.7 million. Revenues were about \$291.5 million.
- The District acquired over \$25.8 million in new capital assets during the year. These expenditures were incurred primarily from Measure "G" Bond expenditures.
- The District increased its outstanding long-term debt by \$4.5 million. This was primarily due to the implementation of a supplementary retirement plan.
- Grades K-12 average daily attendance (ADA) decreased by 312, or 1.4%.

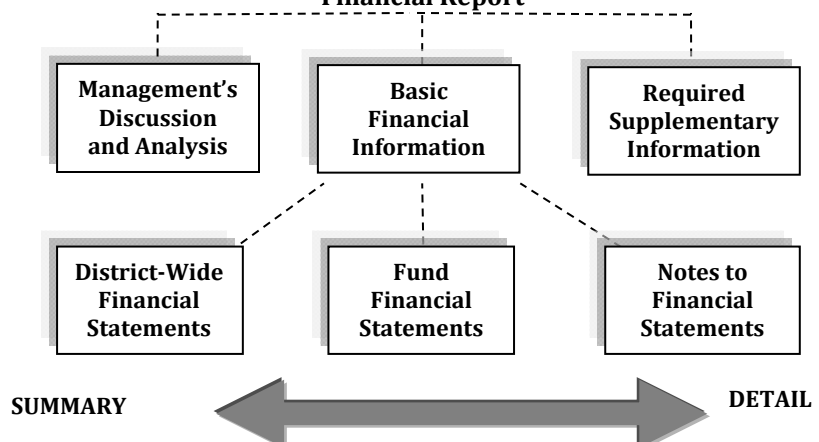
OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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



COLTON JOINT UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2018

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

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

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

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

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

COLTON JOINT UNIFIED SCHOOL DISTRICT

Management's Discussion and Analysis (Unaudited)

For the Fiscal Year Ended June 30, 2018

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, 2018

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

Fund Financial Statements (continued)

- 3) **Fiduciary funds** – The District is the trustee, or fiduciary, for assets that belong to others, such as the student activities funds and the CFD debt service fund. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position. The District's combined net position was lower on June 30, 2018, than it was the year before – decreasing 111.0% to \$(2.2) million (See Table A-1).

Table A-1: Statement of Net Position

	Governmental Activities		Variance
	2018	2017*	Increase (Decrease)
Assets			
Current assets	\$ 146,484,718	\$ 165,069,357	\$ (18,584,639)
Capital assets	393,830,238	379,217,390	14,612,848
Total assets	540,314,956	544,286,747	(3,971,791)
Deferred outflows of resources	104,056,520	86,587,102	17,469,418
Liabilities			
Current liabilities	35,487,837	40,254,288	(4,766,451)
Long-term liabilities	327,748,039	323,207,349	4,540,690
Net pension liability	271,450,060	235,199,285	36,250,775
Total liabilities	634,685,936	598,660,922	36,025,014
Deferred inflows of resources	11,885,806	12,222,419	(336,613)
Net position			
Net investment in capital assets	194,942,621	189,896,232	5,046,389
Restricted	46,846,181	53,137,465	(6,291,284)
Unrestricted	(243,989,068)	(223,043,189)	(20,945,879)
Total net position	\$ (2,200,266)	\$ 19,990,508	\$ (22,190,774)

*As restated

Changes in net position, governmental activities. The District's total revenues decreased 2.3% to \$291.5 million (See Table A-2). The decrease is due primarily to lower operating grants and contributions.

The total cost of all programs and services increased 2.0% to \$313.7 million. The District's expenses are predominantly related to educating and caring for students, 64.9%. The purely administrative activities of the District accounted for just 5.6% of total costs. A significant contributor to the increase in costs was instruction-related services to students and the acquisition of new capital assets.

COLTON JOINT UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2018

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (continued)

Table A-2: Statement of Activities

	Governmental Activities		Variance Increase (Decrease)
	2018	2017	
Revenues			
Program Revenues:			
Charges for services	\$ 1,632,986	\$ 1,659,359	\$ (26,373)
Operating grants and contributions	45,726,454	52,818,610	(7,092,156)
Capital grants and contributions	12	-	12
General Revenues:			
Federal and state aid not restricted	205,997,707	203,563,391	2,434,316
Property taxes	36,638,113	38,808,000	(2,169,887)
Other general revenues	1,554,598	1,652,167	(97,569)
Total Revenues	291,549,870	298,501,527	(6,951,657)
Expenses			
Instruction-related	203,602,963	201,876,118	1,726,845
Pupil services	41,379,669	40,174,791	1,204,878
Administration	17,424,839	17,107,089	317,750
Plant services	33,369,931	30,894,886	2,475,045
All other activities	17,963,242	17,605,119	358,123
Total Expenses	313,740,644	307,658,003	6,082,641
Increase (decrease) in net position	\$ (22,190,774)	\$ (9,156,476)	\$ (13,034,298)
Net Position	\$ (2,200,266)	\$ 19,990,508	

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 \$95.7 million, which is below last year's ending fund balance of \$116.1 million. The primary cause of the decreased fund balance is the increase of instruction-related expenses and the costs to acquire new capital assets.

Table A-3: The District's Fund Balances

Fund	Fund Balances				June 30, 2018
	July 1, 2017	Revenues	Expenditures	Other Sources and (Uses)	
General Fund	\$ 42,760,678	\$ 268,271,857	\$ 260,500,852	\$ (7,140,741)	\$ 43,390,942
Adult Education Fund	572,215	613,310	833,801	-	351,724
Child Development Fund	222,003	2,753,006	2,798,592	-	176,417
Cafeteria Fund	1,295,426	12,361,685	12,520,262	33,826	1,170,675
Deferred Maintenance Fund	1,409,956	1,790,454	2,353,075	-	847,335
Building Fund	29,140,229	292,410	15,880,722	-	13,551,917
Capital Facilities Fund	15,966,882	1,236,165	6,260,835	2,263,396	13,205,608
County School Facilities Fund	980	12	-	-	992
Special Reserve Fund (Capital Outlay)	2,158,666	26,355	3,600	-	2,181,421
Capital Outlay Fund for Blended Component Units	866,872	247	867,018	-	101
Bond Interest and Redemption Fund	21,698,224	11,090,300	12,505,317	560,386	20,843,593
	\$ 116,092,131	\$ 298,435,801	\$ 314,524,074	\$ (4,283,133)	\$ 95,720,725

COLTON JOINT UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2018

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (continued)

General Fund Budgetary Highlights

Over the course of the year, the District revised the annual operating budget several times. The major budget amendments fall into these categories:

- Revenues – increased by \$33.1 million primarily to reflect federal and state budget actions.
- Salaries and benefits costs – increased \$7.6 million attributable to budgeting the STRS on behalf which is offset by matching other state income.
- Other non-personnel expenses – increased \$3.9 million to re-budget carryover funds and revise operational cost estimates.

While the District's final budget for the General Fund anticipated that revenues would exceed expenditures by about \$14.1 million, the actual results for the year show that revenues exceeded expenditures by roughly \$7.8 million. Actual revenues were \$15.2 million less than anticipated, and expenditures were \$8.9 million less than budgeted. That amount consists primarily of restricted categorical program dollars that were not spent as of June 30, 2018, that will be carried over into the 2018-19 budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2017-18 the District had invested \$25.8 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 \$11.2 million.

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

	Governmental Activities		Variance Increase (Decrease)
	2018	2017	
Land	\$ 39,264,110	\$ 39,264,110	\$ -
Improvement of sites	164,826,013	168,495,353	(3,669,340)
Buildings	122,250,854	126,772,858	(4,522,004)
Equipment	6,304,452	4,714,622	1,589,830
Construction in progress	61,184,809	39,970,447	21,214,362
Total	\$ 393,830,238	\$ 379,217,390	\$ 14,612,848

COLTON JOINT UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2018

CAPITAL ASSET AND DEBT ADMINISTRATION (continued)

Long-Term Debt

At year-end the District had \$327.7 million in general obligation bonds, capital and financing leases, and post employment benefits - an increase of 1.4% from last year – as shown in Table A-5. (More detailed information about the District's long-term liabilities is presented in Note 7 to the financial statements).

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

	Governmental Activities		Variance Increase (Decrease)
	2018	2017*	
General obligation bonds	\$ 237,382,329	\$ 240,095,048	\$ (2,712,719)
Financing lease	1,758,651	2,313,565	(554,914)
Supplemental early retirement	6,243,553	-	6,243,553
Compensated absences	1,551,845	1,589,674	(37,829)
Other postemployment benefits	77,233,171	75,630,572	1,602,599
Claims Liability	3,578,490	3,578,490	-
Total	\$ 327,748,039	\$ 323,207,349	\$ 4,540,690

FACTORS BEARING ON THE DISTRICT'S FUTURE

The 2018-19 State Budget

Final Budget Package Includes \$15.9 Billion in Total Reserves

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

Overall Spending

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

Considerable New Spending on Education

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

COLTON JOINT UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2018

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

The 2018-19 State Budget (continued)

Proposition 98 Establishes Minimum Spending Level

This minimum spending requirement is commonly called the minimum guarantee. The minimum guarantee is determined by three main formulas (known as tests) and various inputs, including General Fund revenue, per capita personal income, and K-12 student attendance. The state can spend at the minimum guarantee or any level above it. If the minimum guarantee increases after budget enactment due to updated inputs, the state owes a "settle-up" obligation. In some years, the state also creates or pays "maintenance factor." Maintenance factor is created when General Fund revenue growth is weak relative to changes in per capita personal income. Maintenance factor is paid when General Fund revenue growth is stronger.

Higher Proposition 98 Spending in 2016-17 and 2017-18

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

2018-19 Spending up Notably Over Revised 2017-18 Level

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

\$67.9 Billion Proposition 98 Spending on K-12 Education in 2018-19

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

Package Includes Mix of Ongoing and One-Time Spending

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

COLTON JOINT UNIFIED SCHOOL DISTRICT

Management's Discussion and Analysis (Unaudited)

For the Fiscal Year Ended June 30, 2018

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

The 2018-19 State Budget (continued)

Fully Implements the Local Control Funding Formula (LCFF) for Schools, Then Further Increases Rates

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

Funds One-Time Discretionary Grants

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

All of these factors were considered in preparing the Colton Joint Unified School District budget for the 2018-19 fiscal year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

COLTON JOINT UNIFIED SCHOOL DISTRICT
Statement of Net Position
June 30, 2018

	Total Governmental Activities
ASSETS	
Cash	\$ 135,388,499
Investments	130,013
Accounts receivable	10,272,219
Inventories	385,627
Prepaid expenses	308,360
Non-depreciable assets	100,448,919
Depreciable assets	442,841,487
Less accumulated depreciation	<u>(149,460,168)</u>
Total assets	<u>540,314,956</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred amounts on refunding	5,978,508
Deferred outflows from pensions	95,633,460
Deferred outflows from OPEB	<u>2,444,552</u>
Total deferred outflows of resources	<u>104,056,520</u>
LIABILITIES	
Accounts payable	35,487,837
Long-term liabilities:	
Portion due or payable within one year	8,196,627
Portion due or payable after one year	319,551,412
Net pension liability	<u>271,450,060</u>
Total liabilities	<u>634,685,936</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows from pensions	9,605,935
Deferred inflows from OPEB	<u>2,279,871</u>
Total deferred inflows of resources	<u>11,885,806</u>
NET POSITION	
Net investment in capital assets	194,942,621
Restricted for:	
Capital projects	15,388,021
Debt service	20,843,593
Educational programs	10,614,567
Unrestricted	<u>(243,989,068)</u>
Total net position	<u>\$ (2,200,266)</u>

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

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	\$ 175,098,902	\$ 331	\$ 20,928,666	\$ 12	\$ (154,169,893)
Instruction-Related Services:					
Supervision of instruction	8,577,458	104	3,402,694	-	(5,174,660)
Instructional library, media and technology	2,894,285	-	280,452	-	(2,613,833)
School site administration	17,032,318	-	711,781	-	(16,320,537)
Pupil Support Services:					
Home-to-school transportation	5,673,406	-	-	-	(5,673,406)
Food services	14,459,369	584,979	11,879,040	-	(1,995,350)
All other pupil services	21,246,894	-	4,561,217	-	(16,685,677)
General Administration Services:					
Data processing services	5,961,554	-	-	-	(5,961,554)
Other general administration	11,463,285	3,242	1,223,632	-	(10,236,411)
Plant Services	33,369,931	616,457	2,437,865	-	(30,315,609)
Ancillary Services	2,506,429	-	12,413	-	(2,494,016)
Community Services	148,431	-	-	-	(148,431)
Enterprise Activities	2,449,529	-	-	-	(2,449,529)
Interest on Long-term Debt	10,082,122	-	-	-	(10,082,122)
Other Outgo	2,776,731	427,873	288,694	-	(2,060,164)
Total Governmental Activities	\$ 313,740,644	\$ 1,632,986	\$ 45,726,454	\$ 12	(266,381,192)
General Revenues:					
Property taxes					36,638,113
Federal and state aid not restricted to specific purpose					205,997,707
Interest and investment earnings					615,947
Miscellaneous					938,651
Total general revenues					244,190,418
Change in net position					(22,190,774)
Net position - July 1, 2017, as originally stated					74,768,285
Restatement - change in accounting principle					(54,777,777)
Net position - July 1, 2017, as restated					19,990,508
Net position - June 30, 2018					\$ (2,200,266)

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

	General Fund	Building Fund	Capital Facilities Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS						
Cash	\$ 58,471,978	\$ 15,093,788	\$ 13,784,050	\$ 20,843,593	\$ 3,741,707	\$ 111,935,116
Investments	129,912	-	-	-	101	130,013
Accounts receivable	7,643,718	69,154	96,845	-	2,317,125	10,126,842
Due from other funds	1,834,072	-	71	-	68,837	1,902,980
Inventories	347,430	-	-	-	38,197	385,627
Prepaid expenditures	308,360	-	-	-	-	308,360
Total Assets	<u>\$ 68,735,470</u>	<u>\$ 15,162,942</u>	<u>\$ 13,880,966</u>	<u>\$ 20,843,593</u>	<u>\$ 6,165,967</u>	<u>\$ 124,788,938</u>
LIABILITIES AND FUND BALANCES						
Liabilities						
Accounts payable	\$ 24,248,142	\$ 1,609,209	\$ 675,358	\$ -	\$ 448,348	\$ 26,981,057
Due to other funds	249,051	1,816	-	-	1,836,289	2,087,156
Total Liabilities	<u>24,497,193</u>	<u>1,611,025</u>	<u>675,358</u>	<u>-</u>	<u>2,284,637</u>	<u>29,068,213</u>
Fund Balances						
Nonspendable	705,790	-	-	-	63,197	768,987
Restricted	8,915,751	13,551,917	13,205,608	20,843,593	3,818,133	60,335,002
Assigned	19,907,822	-	-	-	-	19,907,822
Unassigned	14,708,914	-	-	-	-	14,708,914
Total Fund Balances	<u>44,238,277</u>	<u>13,551,917</u>	<u>13,205,608</u>	<u>20,843,593</u>	<u>3,881,330</u>	<u>95,720,725</u>
Total Liabilities and Fund Balances	<u>\$ 68,735,470</u>	<u>\$ 15,162,942</u>	<u>\$ 13,880,966</u>	<u>\$ 20,843,593</u>	<u>\$ 6,165,967</u>	<u>\$ 124,788,938</u>

COLTON JOINT UNIFIED SCHOOL DISTRICT

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

Total fund balances - governmental funds \$ 95,720,725

Amounts reported for assets and liabilities for governmental activities in the statement of net position are different from amounts reported in governmental funds because:

In governmental funds, only current assets are reported. In the statement of net position, all assets are reported, including capital assets and accumulated depreciation.

Capital assets at historical cost:	543,290,406	
Accumulated depreciation:	<u>(149,460,168)</u>	
Net:		393,830,238

Deferred amounts on refunding represent amounts paid to an escrow agent in excess of the outstanding debt at the time of the payment for refunded bonds which have been defeased. In the government-wide statements it is recognized as a deferred outflow of resources. The remaining deferred amounts on refunding at the end of the period were:

5,978,508

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:

(2,761,333)

In governmental funds, only current liabilities are reported. In the statement of net position, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to government-wide statements, consist of:

General obligation bonds payable	237,382,329	
Financing lease	1,758,651	
Supplemental Early Retirement Plan	6,243,553	
Compensated absences	1,551,845	
Other postemployment benefits payable	<u>77,233,171</u>	
Total		(324,169,549)

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

(271,450,060)

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	95,633,460	
Deferred inflows of resources relating to pensions	<u>(9,605,935)</u>	
Net:		86,027,525

In governmental funds, deferred outflows and inflows of resources related to other postemployment benefits (OPEB) are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources related to OPEB are reported.

Deferred outflows of resources relating to OPEB	2,444,552	
Deferred inflows of resources relating to OPEB	<u>(2,279,871)</u>	
Net:		164,681

Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because internal service funds are presumed to operate for the benefit of governmental activities, assets and liabilities of internal service funds are reported with governmental activities in the statement of net position. Net position for the internal service fund is:

14,458,999

Total net position - governmental activities \$ (2,200,266)

COLTON JOINT UNIFIED SCHOOL DISTRICT

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

	General Fund	Building Fund	Capital Facilities Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES						
LCFF sources	\$ 221,736,720	\$ -	\$ -	\$ -	\$ -	\$ 221,736,720
Federal sources	14,099,080	-	-	-	11,996,076	26,095,156
Other state sources	23,096,823	-	-	68,173	3,122,747	26,287,743
Other local sources	11,129,688	292,410	1,236,165	11,022,127	635,792	24,316,182
Total Revenues	270,062,311	292,410	1,236,165	11,090,300	15,754,615	298,435,801
EXPENDITURES						
Current:						
Instructional Services:						
Instruction	156,339,744	-	-	-	2,223,241	158,562,985
Instruction-Related Services:						
Supervision of instruction	8,678,557	-	-	-	52,636	8,731,193
Instructional library, media and technology	2,549,546	-	-	-	-	2,549,546
School site administration	15,264,390	-	-	-	614,288	15,878,678
Pupil Support Services:						
Home-to-school transportation	5,081,730	-	-	-	-	5,081,730
Food services	7,028	-	-	-	12,627,312	12,634,340
All other pupil services	19,905,826	-	-	-	294,412	20,200,238
Ancillary Services	2,010,961	-	-	-	-	2,010,961
Community Services	148,431	-	-	-	-	148,431
General Administration Services:						
Data processing services	5,589,989	-	-	-	-	5,589,989
Other general administration	10,540,940	-	111,919	10,540,940	-	10,652,859
Plant Services	29,261,898	-	406,720	-	178,308	29,846,926
Transfers of Indirect Costs	(162,458)	-	-	-	162,458	-
Capital Outlay	4,239,332	15,880,722	5,742,196	-	870,618	26,732,868
Intergovernmental Transfers	2,779,128	-	-	-	-	2,779,128
Debt Service:						
Principal	554,914	-	-	5,192,363	-	5,747,277
Interest	63,971	-	-	7,312,954	-	7,376,925
Total Expenditures	262,853,927	15,880,722	6,260,835	12,505,317	17,023,273	314,524,074
Excess (Deficiency) of Revenues Over (Under) Expenditures	7,208,384	(15,588,312)	(5,024,670)	(1,415,017)	(1,268,658)	(16,088,273)
OTHER FINANCING SOURCES (USES)						
Interfund transfers in	-	-	2,263,396	-	33,826	2,297,222
Interfund transfers out	(7,140,741)	-	-	-	-	(7,140,741)
Other financing sources	-	-	-	560,386	-	560,386
Total Other Financing Sources and Uses	(7,140,741)	-	2,263,396	560,386	33,826	(4,283,133)
Net Change in Fund Balances	67,643	(15,588,312)	(2,761,274)	(854,631)	(1,234,832)	(20,371,406)
Fund Balances, July 1, 2017	44,170,634	29,140,229	15,966,882	21,698,224	5,116,162	116,092,131
Fund Balances, June 30, 2018	\$ 44,238,277	\$ 13,551,917	\$ 13,205,608	\$ 20,843,593	\$ 3,881,330	\$ 95,720,725

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, 2018

Total net change in fund balances - governmental funds \$ (20,371,406)

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	25,833,270	
Depreciation expense	<u>(11,152,407)</u>	
Net:		14,680,863

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: (68,015)

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: (293,060)

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: 5,747,277

In governmental funds, OPEB costs are recognized when employer contributions are made. In the statement of activities, OPEB costs are recognized on the accrual basis. This year, the difference between accrual-basis OPEB costs and actual employer contributions was: (4,001,655)

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: 67,507

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: (3,620,991)

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: 1,141,347

In governmental funds, compensated absences are measured by the amounts paid during the period. In the statement of activities, compensated absences are measured by the amounts earned. The difference between compensated absences paid and compensated absences earned was: 37,829

In the government-wide statements, expenses must be accrued in connection with any liabilities incurred during the period that are not expected to be liquidated with current financial resources, including early retirement incentives. This year, expenses incurred for such obligations were: (6,243,553)

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: (15,752,628)

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. 6,485,711

Change in net position of governmental activities \$ (22,190,774)

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

	Governmental Activities: <u>Internal Service Fund</u>
ASSETS	
Cash	\$ 23,453,383
Receivables from other funds	257,886
Other receivables	<u>145,377</u>
Total assets	<u>23,856,646</u>
LIABILITIES	
Accounts payable and accrued liabilities	5,745,447
Payables to other funds	73,710
Non-current liabilities:	
Estimated claims and IBNR liability	<u>3,578,490</u>
Total liabilities	<u>9,397,647</u>
NET POSITION	
Unrestricted	<u><u>\$ 14,458,999</u></u>

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

	Governmental Activities: <u>Internal Service Fund</u>
OPERATING REVENUES	
Charges to other funds	\$ 4,709,161
Other local revenues	<u>325,783</u>
Total operating revenues	<u>5,034,944</u>
OPERATING EXPENSES	
Payroll costs	1,873,652
Materials and supplies	26,136
Services and other operating expenses	<u>1,729,732</u>
Total operating expenses	<u>3,629,520</u>
Operating income (loss)	<u>1,405,424</u>
NON-OPERATING REVENUES	
Interest income	236,768
Interfund transfers in	<u>4,843,519</u>
Total non-operating revenues	<u>5,080,287</u>
Change in net position	6,485,711
Net position, July 1, 2017	<u>7,973,288</u>
Net position, June 30, 2018	<u>\$ 14,458,999</u>

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

	Governmental Activities Internal Service Fund
<i>CASH FLOWS FROM OPERATING ACTIVITIES</i>	
Received from in-district premiums	\$ 4,803,478
Payments to employees and fringe benefits	(1,828,355)
Payments to vendors and suppliers	(114,039)
Payments on insurance claims	(2,492,054)
Other receipts (payments)	284,482
Net cash provided (used) by operating activities	<u>653,512</u>
<i>CASH FLOWS FROM INVESTING ACTIVITIES</i>	
Investment income	<u>236,768</u>
<i>CASH FLOWS FROM NON-OPERATING ACTIVITIES</i>	
Interfund transfers in	<u>4,843,519</u>
Net increase (decrease) in cash and cash equivalents	5,733,799
Cash and cash equivalents, July 1, 2017	<u>17,719,584</u>
Cash and cash equivalents, June 30, 2018	<u><u>\$ 23,453,383</u></u>
<i>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</i>	
Operating income (loss)	<u>\$ 1,405,424</u>
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Changes in assets, liabilities, and deferred outflows of resources:	
Receivables, net	(41,301)
Due from other funds	(2,906,020)
Estimated liability for open claims and IBNRs	(762,322)
Accounts payable and accrued liabilities	(87,903)
Due to other funds	3,045,634
Total adjustments	<u>(751,912)</u>
Net cash provided (used) by operating activities	<u><u>\$ 653,512</u></u>

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

	Agency Funds		
	Debt Service Fund for Blended Component Units	Student Body Funds	Total
Assets			
Cash	\$ 3,703,612	\$ 811,283	\$ 4,514,895
Investments	837,371	-	837,371
Other assets	-	9,679	9,679
Inventories	-	45,568	45,568
Total Assets	\$ 4,540,983	\$ 866,530	\$ 5,407,513
Liabilities			
Due to bondholders	\$ 4,540,983	-	\$ 4,540,983
Due to student groups	-	866,530	866,530
Total Liabilities	\$ 4,540,983	\$ 866,530	\$ 5,407,513

COLTON JOINT UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

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. 61, *The Financial Reporting Entity: Omnibus – An Amendment of GASB Statements No. 14 and No. 34*, and thus are included in the financial statements using the blended presentation method as if they were part of the District's operations because the Board of Trustees of the component units is essentially the same as the Board of Trustees of the District and because their purpose is to finance the construction of facilities to be used for the direct benefit of the District.

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

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

B. Basis of Presentation, Basis of Accounting

1. Basis of Presentation

Government-Wide Financial Statements

The statement of net position and the statement of activities display information about the primary government (the District) and its component units. These statements include the financial activities of the overall government, except for fiduciary activities.

COLTON JOINT UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

1. Basis of Presentation (continued)

Government-Wide Financial Statements (continued)

Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

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

Fund Financial Statements

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

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

Major Governmental Funds

The District reports the following major governmental funds:

General Fund: This fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund. The District also maintains a Deferred Maintenance Fund which does not currently meet the definition of a special revenue fund as it is not primarily composed of restricted or committed revenue sources. Because this fund does not meet the definition of a special revenue fund under GASB 54, the activity in this fund is being reported within the General Fund.

Building Fund: This fund is used to account for the acquisition of major governmental capital facilities and buildings from the sale of general obligation bonds and bond anticipation notes.

Capital Facilities Fund: This fund is used to account for resources received from developer impact fees assessed under provisions of the California Environmental Quality Act.

Bond Interest and Redemption Fund: This Fund is used to account for the accumulation of resources for, and the repayment of, District bonds, interest, and related costs.

COLTON JOINT UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

1. Basis of Presentation (continued)

Non-Major Governmental Funds

The District reports the following non-major governmental funds:

Special Revenue Funds:

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

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

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

Capital Projects Funds:

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

Special Reserve Fund for Capital Outlay Projects: This fund is used to account for funds set aside for Board designated construction projects.

Capital Projects Fund for Blended Component Units: This fund is used to account for the capital activity of the Community Facilities Districts.

Proprietary Funds

Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows. Proprietary funds are classified as enterprise or internal service. The District has the following proprietary fund:

Self-Insurance Fund: This fund may be used to account for any activity for which goods or services are provided to other funds of the District in return for a fee to cover the cost of operations. The District operates a liability insurance and a workers' compensation program that is accounted for in the self-insurance service fund.

Fiduciary Funds

Fiduciary fund reporting focuses on net position and changes in net position. Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore cannot be used to support the District's own programs. The fiduciary fund category includes pension (and other employee benefit) trust funds, investment trust funds, private-purpose trust funds, and agency funds.

COLTON JOINT UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Fiduciary Funds (continued)

The District maintains the following fiduciary funds:

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

Agency Funds: The District maintains a separate agency fund for each school that operates an Associated Student Body (ASB) Fund, whether it is organized or not.

2. Measurement Focus, Basis of Accounting

Government-Wide, Proprietary, and Fiduciary Fund Financial Statements

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and financing from capital leases are reported as other financing sources.

3. Revenues - Exchange and Non-Exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year. Generally, available is defined as collectible within 60 days. However, to achieve comparability of reporting among California districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to state-aid apportionments, the California Department of Education has defined available for districts as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, certain grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year in which the taxes are received. Revenue from certain grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include time and purpose requirements. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Budgetary Data

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

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

D. Encumbrances

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

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

1. Cash and Cash Equivalents

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

2. Inventories and Prepaid Items

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

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

3. Capital Assets

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

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

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

COLTON JOINT UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

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.

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

6. Compensated Absences

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

7. Postemployment Benefits Other Than Pensions (OPEB)

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

COLTON JOINT UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

8. Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the District's California State Teachers Retirement System (CalSTRS) and California Public Employees' Retirement System (CalPERS) plans and addition to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalSTRS and CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

9. Fund Balances

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

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

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

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

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.

COLTON JOINT UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

10. Net Position

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

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

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

F. Minimum Fund Balance Policy

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

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

G. Property Tax Calendar

The County is responsible for the assessment, collection, and apportionment of property taxes for all jurisdictions including the schools and special districts within the County. The Board of Supervisors levies property taxes as of September 1 on property values assessed on July 1. Secured property tax payments are due in two equal installments. The first is generally due November 1 and is delinquent with penalties on December 10, and the second is generally due on February 1 and is delinquent with penalties on April 10. Secured property taxes become a lien on the property on January 1.

COLTON JOINT UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reported period. Actual results could differ.

I. New GASB Pronouncements

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

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

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

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

COLTON JOINT UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. New GASB Pronouncements (continued)

3. In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). Specifically, this Statement addresses the following topics:
 - Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation
 - Reporting amounts previously reported as goodwill and “negative” goodwill
 - Classifying real estate held by insurance entities
 - Measuring certain money market investments and participating interest-earning investment contracts at amortized cost
 - Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus
 - Recognizing on-behalf payments for pensions or OPEB in employer financial statements
 - Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB
 - Classifying employer-paid member contributions for OPEB
 - Simplifying certain aspects of the alternative measurement method for OPEB
 - Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

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

COLTON JOINT UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 2 – CASH AND INVESTMENTS

Cash and investments at June 30, 2018, 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	\$ 111,855,116	\$ 23,378,383	\$ 135,233,499	\$ 3,703,612
Deposits:				
Cash on hand and in banks	5,000	-	5,000	811,283
Cash in revolving fund	75,000	-	75,000	-
Cash with fiscal agent	-	75,000	75,000	-
Total Deposits	80,000	75,000	155,000	811,283
Total Cash	\$ 111,935,116	\$ 23,453,383	\$ 135,388,499	\$ 4,514,895
Investments:				
U.S. Bank - Money Market	\$ 101	\$ -	\$ 101	\$ 837,371
Local Agency Investment Fund (LAIF)	129,912	-	129,912	-
Total Investments	\$ 130,013	\$ -	\$ 130,013	\$ 837,371

Pooled Funds

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

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

In accordance with applicable state laws, the County Treasurer may invest in derivative securities with the State of California. However, at June 30, 2018, the County Treasurer has represented that the Pooled Investment Fund contained no derivatives or other investments with similar risk profiles.

Custodial Credit Risk – Deposits

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

COLTON JOINT UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 2 – CASH AND INVESTMENTS (continued)

Custodial Credit Risk – Deposits (continued)

As of June 30, 2018, \$834,489 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, 2018, consisted of the following:

	Fair Value	Maturity		Fair Value Measurement
		Less Than One Year	One Year Through Five Years	
Investment maturities:				
U.S. Bank - Money Market	\$ 837,472	\$ 837,472	\$ -	Level 2
Local Agency Investment Fund (LAIF)	129,912	129,912	-	Level 2
Total Investments	<u>\$ 967,384</u>	<u>\$ 967,384</u>	<u>\$ -</u>	

Investments - Credit Risk

The District's investment policy limits investment choices to obligations of local, state and federal agencies, commercial paper, certificates of deposit, repurchase agreements, corporate notes, banker acceptances, and other securities allowed by State Government Code Section 53600. At June 30, 2018, all investments represented governmental securities which were issued, registered and held by the District's agent in the District's name.

Investments - Concentration of Credit Risk

The District does not place limits on the amount it may invest in any one issuer. At June 30, 2018, the District had the following investment that represented more than five percent of the District's net investments.

U.S. Bank - Money Market	87%
Local Agency Investment Fund	13%

COLTON JOINT UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 2 – CASH AND INVESTMENTS (continued)

Fair Value Measurements

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

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

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

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

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

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

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2018, consisted of the following:

	General Fund	Building Fund	Capital Facilities Fund	Non-Major Governmental Funds	Total Governmental Funds	Proprietary Fund
Federal Government:						
Categorical aid programs	\$ 5,179,935	\$ -	\$ -	\$ 1,761,402	\$ 6,941,337	\$ -
State Government:						
Lottery	939,319	-	-	-	939,319	-
Special education	309,686	-	-	-	309,686	-
Categorical aid programs	195,890	-	-	537,491	733,381	-
Local:						
Interest	216,329	69,154	59,683	15,012	360,178	81,247
Special education	802,559	-	37,162	-	839,721	64,130
Other local	-	-	-	3,220	3,220	-
Total	<u>\$ 7,643,718</u>	<u>\$ 69,154</u>	<u>\$ 96,845</u>	<u>\$ 2,317,125</u>	<u>\$ 10,126,842</u>	<u>\$ 145,377</u>

COLTON JOINT UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2018

NOTE 4 - INTERFUND TRANSACTIONS

A. Balances Due To/From Other Funds

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

	Due From Other Funds					Total
	General Fund	Building Fund	Non-Major Governmental Funds	Total Governmental Funds	Self-Insurance Fund	
General Fund	\$ -	\$ 1,436	\$ 1,758,926	\$ 1,760,362	\$ 73,710	\$ 1,834,072
Capital Facilities Fund	71	-	-	71	-	71
Non-Major Governmental Funds	58,256	-	10,581	68,837	-	68,837
Proprietary Fund	190,724	380	66,782	257,886	-	257,886
Total	\$ 249,051	\$ 1,816	\$ 1,836,289	\$ 2,087,156	\$ 73,710	\$ 2,160,866

Due to General Fund from Cafeteria Fund for benefits and temporary loan.	\$ 1,529,991
Due to General Fund from Self-Insurance Fund for benefits.	73,710
Due to General Fund from Adult Education Fund for benefits and indirect costs.	10,104
Due to General Fund from Child Development Fund for indirect costs and personnel activity report adjustments.	218,831
Due to General Fund from Building Fund for benefits.	1,436
Due to Child Development Fund from General Fund for personnel activity report adjustments.	19,546
Due to Cafeteria Fund from General Fund for lunches.	38,710
Due to Cafeteria Fund from Child Development Fund for lunches.	10,581
Due to Capital Facilities Fund from General Fund for community redevelopment funds.	71
Due to Self-Insurance Fund from General Fund for benefits.	190,724
Due to Self-Insurance Fund from Cafeteria Fund for benefits.	49,818
Due to Self-Insurance Fund from Building Fund for benefits.	380
Due to Self-Insurance Fund from Child Development Fund for benefits.	15,935
Due to Self-Insurance Fund from Adult Education Fund for benefits.	1,029
Total	\$ 2,160,866

B. Transfers To/From Other Funds

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

Transfer from the General Fund to the Cafeteria Fund for payments of unpaid lunch balances.	\$ 33,826
Transfer from the General Fund to the Capital Facilities Fund for RDA funds.	2,263,396
Transfer from the General Fund to the Self-Insurance Fund for OPEB expenses.	4,843,519
Total	\$ 7,140,741

COLTON JOINT UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
 June 30, 2018

NOTE 5 – FUND BALANCES

At June 30, 2018, fund balances of the District’s governmental funds were classified as follows:

	General Fund	Building Fund	Capital Facilities Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total
Nonspendable:						
Revolving cash	\$ 50,000	\$ -	\$ -	\$ -	\$ 25,000	\$ 75,000
Stores inventories	347,430	-	-	-	38,197	385,627
Prepaid expenditures	308,360	-	-	-	-	308,360
Total Nonspendable	705,790	-	-	-	63,197	768,987
Restricted:						
Categorical programs	8,915,751	-	-	-	1,635,619	10,551,370
Capital projects	-	13,551,917	13,205,608	-	2,182,514	28,940,039
Debt service	-	-	-	20,843,593	-	20,843,593
Total Restricted	8,915,751	13,551,917	13,205,608	20,843,593	3,818,133	60,335,002
Assigned:						
Professional Learning Center	1,000,000	-	-	-	-	1,000,000
LCAP	6,174,777	-	-	-	-	6,174,777
Facilities update	1,500,000	-	-	-	-	1,500,000
Student tech/field/athletics/vehicles	3,050,000	-	-	-	-	3,050,000
2018-19 Deficit spending	7,251,062	-	-	-	-	7,251,062
Site Saturday school	84,648	-	-	-	-	84,648
Deferred maintenance program	847,335	-	-	-	-	847,335
Total Assigned	19,907,822	-	-	-	-	19,907,822
Unassigned:						
Reserve for economic uncertainties	7,982,500	-	-	-	-	7,982,500
Remaining unassigned balances	6,726,414	-	-	-	-	6,726,414
Total Unassigned	14,708,914	-	-	-	-	14,708,914
Total	\$ 44,238,277	\$ 13,551,917	\$ 13,205,608	\$ 20,843,593	\$ 3,881,330	\$ 95,720,725

NOTE 6 – CAPITAL ASSETS AND DEPRECIATION

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

	Balance, July 1, 2017	Additions	Retirements	Balance, June 30, 2018
Capital assets not being depreciated:				
Land	\$ 39,264,110	\$ -	\$ -	\$ 39,264,110
Construction in progress	39,970,447	23,145,878	1,931,516	61,184,809
Total capital assets not being depreciated	79,234,557	23,145,878	1,931,516	100,448,919
Capital assets being depreciated:				
Improvement of sites	195,733,464	934,417	-	196,667,881
Buildings	219,982,841	1,196,925	-	221,179,766
Equipment	23,139,741	2,487,566	633,467	24,993,840
Total capital assets being depreciated	438,856,046	4,618,908	633,467	442,841,487
Accumulated depreciation for:				
Improvement of sites	(27,238,111)	(4,603,757)	-	(31,841,868)
Buildings	(93,209,983)	(5,718,929)	-	(98,928,912)
Equipment	(18,425,119)	(829,721)	(565,452)	(18,689,388)
Total accumulated depreciation	(138,873,213)	(11,152,407)	(565,452)	(149,460,168)
Total capital assets being depreciated, net	299,982,833	(6,533,499)	68,015	293,381,319
Governmental activity capital assets, net	\$ 379,217,390	\$ 16,612,379	\$ 1,999,531	\$ 393,830,238

COLTON JOINT UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2018

NOTE 6 – CAPITAL ASSETS AND DEPRECIATION (continued)

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

Instruction	\$ 9,033,450
School Site Administration	446,096
Food Services	1,003,717
All Other Pupil Services	223,048
Ancillary Services	<u>446,096</u>
 Total	 <u><u>\$ 11,152,407</u></u>

NOTE 7 – GENERAL LONG-TERM DEBT

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

	Balance, July 1, 2017	Additions	Deductions	Balance, June 30, 2018	Amount Due Within One Year
General Obligation Bonds:					
Principal repayments	\$ 198,769,829	\$ -	\$ 5,192,363	\$ 193,577,466	\$ 5,693,634
Accreted interest component	23,080,354	4,228,628	607,637	26,701,345	791,366
Unamortized issuance premium	18,244,865	-	1,141,347	17,103,518	1,141,347
Total - Bonds	<u>240,095,048</u>	<u>4,228,628</u>	<u>6,941,347</u>	<u>237,382,329</u>	<u>7,626,347</u>
Financing Lease	2,313,565	-	554,914	1,758,651	570,280
Supplemental Early Retirement Plan	-	7,804,441	1,560,888	6,243,553	-
Compensated Absences	1,589,674	-	37,829	1,551,845	-
Other Postemployment Benefits	75,630,572	7,113,206	5,510,607	77,233,171	-
Claims Liability	3,578,490	-	-	3,578,490	-
Totals	<u><u>\$ 323,207,349</u></u>	<u><u>\$ 19,146,275</u></u>	<u><u>\$ 14,605,585</u></u>	<u><u>\$ 327,748,039</u></u>	<u><u>\$ 8,196,627</u></u>

Note: Beginning balance of OPEB liability has been restated due to the implementation of GASB Statement No. 75.

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. The early retirement incentives, other postemployment benefits, and accumulated vacation will be paid by the fund for which the employee worked. The claims liability will be paid by the Internal Service Fund.

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.

COLTON JOINT UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

A. General Obligation Bonds (continued)

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, 2018, 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 \$5,978,508 remain to be amortized as of June 30, 2018.

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

Description	Issue Date	Maturity Date	Interest Rate	Original Issue	Balance, July 1, 2017	Additions	Deletions	Balance, June 30, 2018
Election of 2001 (Measure B)								
Series B	7/14/2004	2/1/2029	2.00%-5.89%	\$ 23,177,726	\$ 1,997,726	\$ -	\$ -	\$ 1,997,726
Series C	1/11/2006	2/1/2038	3.17%-5.12%	50,122,151	1,140,405	-	-	1,140,405
Election of 2008 (Measure G)								
Series A	10/15/2009	8/1/2034	4.50%-9.00%	48,999,050	1,670,666	-	515,785	1,154,881
Series B	8/31/2010	8/1/2046	5.00%-12.00%	41,938,348	35,116,032	-	51,578	35,064,455
Series C	7/7/2011	8/1/2026	5.458%-6.008%	11,900,000	11,900,000	-	-	11,900,000
Series D	8/2/2016	8/1/2044	2.00%-4.00%	24,645,000	24,645,000	-	615,000	24,030,000
Refunding Bonds								
	5/31/2012	8/1/2026	2.00%-5.00%	22,190,000	16,895,000	-	1,335,000	15,560,000
	5/1/2013	8/1/2027	2.00%-5.00%	38,625,000	34,855,000	-	2,400,000	32,455,000
	2/25/2016	2/1/2036	3.00%-5.00%	19,010,000	19,010,000	-	-	19,010,000
	8/2/2016	8/1/2046	2.00%-5.00%	51,540,000	51,540,000	-	275,000	51,265,000
					<u>\$ 198,769,829</u>	<u>\$ -</u>	<u>\$ 5,192,363</u>	<u>\$ 193,577,466</u>
Accreted Interest								
Measure B, Series B				\$ 2,524,469	\$ 304,244	\$ -	\$ -	\$ 2,828,713
Measure B, Series C				1,577,357	222,092	-	-	1,799,449
Measure G, Series A				1,607,058	268,429	544,214	-	1,331,273
Measure G, Series B				17,371,470	3,433,863	63,423	-	20,741,910
					<u>\$ 23,080,354</u>	<u>\$ 4,228,628</u>	<u>\$ 607,637</u>	<u>\$ 26,701,345</u>

COLTON JOINT UNIFIED SCHOOL DISTRICT*Notes to Financial Statements**June 30, 2018***NOTE 7 – GENERAL LONG-TERM DEBT (continued)****A. General Obligation Bonds (continued)**

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

Fiscal Year	Principal	Interest	Total
2018-19	\$ 5,693,634	\$ 7,393,393	\$ 13,087,027
2019-20	5,480,066	7,413,736	12,893,802
2020-21	6,268,821	6,453,556	12,722,377
2021-22	13,842,578	6,345,599	20,188,177
2022-23	6,955,000	6,021,940	12,976,940
2023-28	49,287,966	28,274,181	77,562,147
2028-33	39,763,130	27,804,274	67,567,404
2033-38	37,846,113	40,066,796	77,912,909
2038-43	15,306,801	62,915,796	78,222,597
2043-47	13,133,357	49,434,992	62,568,349
Total	<u>\$ 193,577,466</u>	<u>\$ 242,124,263</u>	<u>\$ 435,701,729</u>

B. Financing Lease

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

The repayment schedule on the lease is as follows:

Fiscal Year	Principal	Interest	Total
2018-19	\$ 570,280	\$ 44,442	\$ 614,722
2019-20	586,071	28,651	614,722
2020-21	602,300	12,422	614,722
Total	<u>\$ 1,758,651</u>	<u>\$ 85,515</u>	<u>\$ 1,844,166</u>

C. Early Retirement

The District has established a supplemental early retirement incentive program (SERP) whereby certain qualified employees may retire early and receive a portion of their salary paid out as an annuity. The total future payments owing at June 30, 2018, for these obligations are shown below.

Fiscal Year	Payment
2018-19	\$ 1,560,888
2019-20	1,560,888
2020-21	1,560,888
2021-22	1,560,888
	<u>\$ 6,243,552</u>

COLTON JOINT UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

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 Marks-Roos Local Bond Pooling Act of 1985, and are payable from special taxes levied on property within the Community Facilities Districts according to a methodology approved by the voters within the District. Neither the faith and credit nor taxing power of the District is pledged to the payment of the bonds. Reserves have been established from the bond proceeds to meet delinquencies should they occur. If delinquencies occur beyond the amounts held in those reserves, the District has no duty to pay the delinquency out of any available funds of the District. The District acts solely as an agent for those paying taxes levied and the bondholders, and may initiate foreclosure proceedings. Special assessment debt of \$9,335,000 as of June 30, 2018, does not represent debt of the District and, as such, does not appear in the financial statements.

NOTE 8 – JOINT VENTURES

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

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

The JPAs provide property and liability insurance coverage as well as health and welfare benefits coverage. The JPAs are governed by a board consisting of a representative from each member district. The governing board controls the operations of its JPAs independent of any influence by the member districts beyond their representation on the governing board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionately to its participation in the JPAs. Information is available directly from the JPA's.

NOTE 9 – COMMITMENTS AND CONTINGENCIES

A. State and Federal Allowances, Awards and Grants

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

B. Construction Commitments

As of June 30, 2018, the District had commitments with respect to unfinished capital projects of \$8,565,155 to be paid from a combination of State and local funds.

COLTON JOINT UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 9 – COMMITMENTS AND CONTINGENCIES (continued)

C. Litigation

The District is involved in certain legal matters that arose out of the normal course of business. The District has not accrued a liability for any potential litigation against it because it does not meet the criteria to be considered a liability at June 30, 2018.

NOTE 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, 2018, the District participated in the Alliance of Schools for Cooperative Insurance Programs (ASCIP) public entity risk pool for property and liability insurance coverage. Settled claims have not exceeded the insured coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

Workers' Compensation

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

Claims Liability

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

Unpaid Claims Liabilities

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

	Workers' Compensation
Liability Balance, July 1, 2016	\$ 10,021,322
Claims and changes in estimates	1,954,227
Claims payments	<u>(1,954,227)</u>
Liability Balance, June 30, 2017	10,021,322
Claims and changes in estimates	967,410
Claims payments	<u>(1,729,732)</u>
Liability Balance, June 30, 2018	<u><u>\$ 3,578,490</u></u>
Assets available to pay claims at June 30, 2018	<u><u>\$ 16,765,122</u></u>

COLTON JOINT UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

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 the California Public Employees' Retirement System (CalPERS).

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

Pension Plan	Net Pension Liability	Deferred Outflows of Resources	Deferred Inflows of Resources	Pension Expense
CalSTRS	\$ 198,446,468	\$ 72,160,647	\$ 8,746,408	\$ 25,877,267
CalPERS	73,003,592	23,472,813	859,527	14,409,776
Total	<u>\$ 271,450,060</u>	<u>\$ 95,633,460</u>	<u>\$ 9,605,935</u>	<u>\$ 40,287,043</u>

The details of each plan are as follows:

A. California State Teachers' Retirement System (CalSTRS)

Plan Description

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

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

Benefits Provided

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

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

COLTON JOINT UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 11 – PENSION PLANS (continued)

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

Benefits Provided (continued)

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

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

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

Contributions

Required member District and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1% of applicable member earnings phased over a seven year period. The contribution rates for each plan for the year ended June 30, 2018, are presented above and the District's total contributions were \$16,218,550.

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

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

Total net pension liability, including State share:	
District's proportionate share of net pension liability	\$ 198,446,468
State's proportionate share of the net pension liability associated with the District	46,344,915
Total	<u>\$ 244,791,383</u>

COLTON JOINT UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 11 – PENSION PLANS (continued)

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

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

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

	Percentage Share of Risk Pool		Change Increase/ (Decrease)
	Fiscal Year Ending June 30, 2018	Fiscal Year Ending June 30, 2017	
Measurement Date	<u>June 30, 2017</u>	<u>June 30, 2016</u>	
Proportion of the Net Pension Liability	0.214583%	0.214000%	0.000583%

For the year ended June 30, 2018, the District recognized pension expense of \$25,877,267. In addition, the District recognized pension expense and revenue of \$2,092,074 for support provided by the State. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 16,218,550	\$ -
Net change in proportionate share of net pension liability	18,443,697	-
Difference between projected and actual earnings on pension plan investments	-	5,285,182
Changes of assumptions	36,764,526	-
Differences between expected and actual experience in the measurement of the total pension liability	733,874	3,461,226
Total	<u>\$ 72,160,647</u>	<u>\$ 8,746,408</u>

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

COLTON JOINT UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 11 – PENSION PLANS (continued)

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

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ 4,979,292
2020	12,697,847
2021	9,852,475
2022	4,676,730
2023	9,773,079
Thereafter	5,216,266
Total	<u>\$ 47,195,689</u>

Actuarial Methods and Assumptions

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

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

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

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

COLTON JOINT UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 11 – PENSION PLANS (continued)

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

Actuarial Methods and Assumptions (continued)

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

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

Discount Rate

The discount rate used to measure the total pension liability was 7.1%. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.1%) and assuming that contributions, benefit payments and administrative expense occurred midyear. Based on these assumptions, the STRP's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

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

Discount Rate	Net Pension Liability
1% decrease (6.10%)	\$ 291,382,417
Current discount rate (7.10%)	198,446,468
1% increase (8.10%)	123,022,648

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of \$9,547,078 (9.328% of annual payroll). Under accounting principles generally accepted in the United States of America, these amounts are reported as revenues and expenditures. On behalf payments have been included in the budgeted amounts reported in the General Fund - Budgetary Comparison Schedule.

COLTON JOINT UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 11 – PENSION PLANS (continued)

B. California Public Employees Retirement System (CalPERS)

Plan Description

Qualified employees are eligible to participate in the School Employer Pool (SEP) under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law.

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

Benefits Provided

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

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

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

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

COLTON JOINT UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2018

NOTE 11 – PENSION PLANS (continued)

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

Contributions (continued)

The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2018, are presented above and the total District contributions were \$6,223,791.

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

As of June 30, 2018, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$73,003,592. The net pension liability was measured as of June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportions of the net pension liability for the two most recent measurement periods were:

	Percentage Share of Risk Pool		Change Increase/ (Decrease)
	Fiscal Year Ending June 30, 2018	Fiscal Year Ending June 30, 2017	
Measurement Date	<u>June 30, 2017</u>	<u>June 30, 2016</u>	
Proportion of the Net Pension Liability	0.305804%	0.314500%	-0.008696%

For the year ended June 30, 2018, the District recognized pension expense of \$14,409,776. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 6,223,791	\$ -
Net change in proportionate share of net pension liability	1,444,857	-
Difference between projected and actual earnings on pension plan investments	2,525,425	-
Changes of assumptions	10,663,323	859,527
Differences between expected and actual experience in the measurement of the total pension liability	2,615,417	-
Total	<u>\$ 23,472,813</u>	<u>\$ 859,527</u>

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

COLTON JOINT UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 11 – PENSION PLANS (continued)

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

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

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ 4,939,739
2020	7,958,610
2021	5,231,225
2022	(1,740,079)
2023	-
Thereafter	-
Total	<u>\$ 16,389,495</u>

Actuarial Methods and Assumptions

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

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

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first ten years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and adjusted to account for assumed administration expenses.

COLTON JOINT UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 11 – PENSION PLANS (continued)

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

Actuarial Methods and Assumptions (continued)

The target asset allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

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

Discount Rate

The discount rate used to measure the total pension liability was 7.15%. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Based on these assumptions, the School Employer Pool fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

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

Discount Rate	Net Pension Liability
1% decrease (6.15%)	\$ 107,411,677
Current discount rate (7.15%)	73,003,592
1% increase (8.15%)	44,459,203

C. Social Security

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

D. Payables to the Pension Plans

At June 30, 2017, the District did not have any outstanding payables for outstanding contributions to the CalSTRS and CalPERS pension plans, respectively, required for the fiscal year ended June 30, 2018.

COLTON JOINT UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS

A. General Information about the OPEB Plan

Plan description

The District's defined benefit OPEB plan provides OPEB for eligible certificated, classified, and management employees of the District. The authority to establish and amend the benefit terms and financing requirements are governed by collective bargaining agreements with plan members. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement 75.

Benefits provided

The postretirement health plans and the District's obligation vary by employee group as described below.

Access to coverage

The District reported the following OPEB: medical coverage (including vision) and dental coverage for its retiring employees. Only the medical plan coverage for pre-Medicare retirees creates a GASB 75 liability for the District. Medical coverage is available for employees who satisfy the requirements for retirement under the applicable retirement system:

- CalPERS retirement requires attainment of age 50 (age 52 if new to PERS after December 31, 2012) with 5 years of State or public agency services or approved disability retirement
- CalSTRS retirement requires attainment of age 55 with 5 years of State or public agency service. If CalSTRS membership began prior to January 1, 2013, the employee can retire at age 50 with 30 years of State or public agency service.

District Subsidy of Retiree Coverage

Dental coverage is not subsidized by the District. Retirees choosing to continue this coverage are required to pay the full premium.

Retiring employees who satisfy the requirements are eligible for a temporary benefit paid by the District toward the cost of their medical/vision coverage. Minimum age and services requirements, the benefit amount, and duration are summarized below:

Employee Group	Minimum Age	Minimum Service	Benefit	Benefit Duration	Survivor Benefits
Certificated	55	15	Up to 100% of the premium for HMO coverage for retiree + spouse or 1 dep	5 years (10 years if age 50 before 7/1/2007) or until age 65	No
Classified*	50	15		10 years or until age 65	Yes

* The benefit amount is pro-rated for Classified employees who worked less than 100% FTE

Three current retirees are entitled to lifetime medical benefits; no other persons qualify for lifetime benefits.

COLTON JOINT UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (continued)

A. General Information about the OPEB Plan (continued)

Employees covered by benefit terms

At June 30, 2018, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	162
Active employees	2,283
Total	2,445

Medicare Premium Payment (MPP) Program

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

B. Total OPEB Liability

The District’s total OPEB liability of \$75,796,333 for the District Plan was measured as of June 30, 2017, and was determined by an actuarial valuation as of July 1, 2017. The District’s proportionate share of the net MPP Program OPEB liability of \$1,436,838 was measured as of June 30, 2017, and was determined by an actuarial valuation as of June 30, 2016.

Actuarial assumptions and other inputs

The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

	District Plan	MPP Program
Valuation Date	July 1, 2017	June 30, 2016
Experience Study	N/A	July 1, 2010, through June 30, 2015
Inflation	2.75 percent	N/A
Salary increases	3.25 percent, average, including inflation	N/A
Healthcare cost trend rates	8.5 percent, and grade down to 5.0 percent for years 2025 and thereafter	3.58 percent
Retirees' share of benefit-related costs	Dental coverage is not subsidized by the District. The District will pay up to 100% of the premium for HMO coverage for retiree with one spouse or dependent.	3.7 percent for Medicare Part A, and 4.1 percent for Medicare Part B

District Plan

The discount rate is based on the S&P Municipal Bond 20 Year High Grade Rate Index.

Mortality rates are based on the most recent rates used by CalPERS and CalSTRS for the pension valuations.

COLTON JOINT UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2018

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (continued)

B. Total OPEB Liability (continued)

MPP Program

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

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

C. Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at July 1, 2016	<u>\$ 74,032,146</u>
Changes for the year:	
Service cost	4,888,948
Interest	2,080,731
Changes of Assumptions	(2,641,755)
Benefit payments	<u>(2,563,737)</u>
Net changes	<u>1,764,187</u>
Balance at June 30, 2017	75,796,333
District's Proportionate Share of the Net MPP OPEB Liability	<u>1,436,838</u>
District's Total Reported Net OPEB Liability	<u>\$ 77,233,171</u>

Sensitivity of the total OPEB liability to changes in the discount rate

The following presents the total OPEB liability of the District, as well as what the District’s total OPEB liability would be if it were calculated using a discount rate that is one percentage-point lower or one percentage-point higher than the current discount rate:

	1% Decrease <u>2.13%</u>	Discount Rate <u>3.13%</u>	1% Increase <u>4.13%</u>
District Plan	\$ 81,757,938	\$ 75,796,333	\$ 70,181,502
	1% Decrease <u>2.58%</u>	Discount Rate <u>3.58%</u>	1% Increase <u>4.58%</u>
MPP Program	\$ 1,590,680	\$ 1,436,838	\$ 1,287,194

COLTON JOINT UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (continued)

C. Changes in the Total OPEB Liability (continued)

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates

The following presents the total OPEB liability of the District, as well as what the District’s total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage-point lower or one percentage-point higher than the current healthcare cost trend rates:

	1% Decrease (7.5% decreasing to 4.0%)	Healthcare Cost Trend Rates (8.5% decreasing to 5.0%)	1% Increase (9.5% decreasing to 6.0%)
District Plan	\$ 67,471,505	\$ 75,796,333	\$ 86,036,611
		Medicare Cost Trend Rates	
	1% Decrease (2.7% Part A and 3.1% Part B)	(3.7% Part A and 4.1% Part B)	1% Increase (4.7% Part A and 5.1% Part B)
MPP Program	\$ 1,298,403	\$ 1,436,838	\$ 1,573,891

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

For the year ended June 30, 2018, the District recognized OPEB expense of \$6,607,795. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	\$ -	\$ 2,279,871
District contributions subsequent to the measurement date of the net OPEB liability	2,444,552	-
Total	<u>\$ 2,444,552</u>	<u>\$ 2,279,871</u>

The amount reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date of the total OPEB liability will be recognized as a reduction of the total OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30:	
2019	\$ (361,884)
2020	(361,884)
2021	(361,883)
2022	(361,882)
2023	(361,881)
Thereafter	(470,451)

Required Supplementary Information

(This page intentionally left blank)

COLTON JOINT UNIFIED SCHOOL DISTRICT
Budgetary Comparison Schedule – General Fund
For the Fiscal Year Ended June 30, 2018

	Budgeted Amounts		Actual* (Budgetary Basis)	Variance with Final Budget - Pos (Neg)
	Original	Final		
Revenues				
LCFF Sources	\$ 219,751,828	\$ 232,446,273	\$ 219,971,362	\$ (12,474,911)
Federal Sources	12,251,644	16,809,456	14,099,080	(2,710,376)
Other State Sources	8,163,006	23,024,620	23,096,823	72,203
Other Local Sources	10,232,672	11,216,884	11,104,592	(112,292)
Total Revenues	250,399,150	283,497,233	268,271,857	(15,225,376)
Expenditures				
Current:				
Certificated Salaries	116,529,180	117,810,951	114,960,179	2,850,772
Classified Salaries	37,231,062	36,830,401	36,318,842	511,559
Employee Benefits	59,339,236	66,098,764	67,575,467	(1,476,703)
Books and Supplies	13,727,362	13,393,195	10,392,325	3,000,870
Services and Other Operating Expenditures	24,490,763	27,700,341	24,551,347	3,148,994
Capital Outlay	3,279,423	3,904,243	3,467,138	437,105
Other Outgo	3,290,746	3,653,884	3,235,554	418,330
Total Expenditures	257,887,772	269,391,779	260,500,852	8,890,927
Excess (Deficiency) of Revenues Over (Under) Expenditures	(7,488,622)	14,105,454	7,771,005	(6,334,449)
Other Financing Sources and Uses				
Interfund Transfers Out	(3,769,805)	(7,533,201)	(7,140,741)	392,460
Total Other Financing Sources and Uses	(3,769,805)	(7,533,201)	(7,140,741)	392,460
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(11,258,427)	6,572,253	630,264	(5,941,989)
Fund Balances, July 1, 2017	42,760,678	42,760,678	42,760,678	-
Fund Balances, June 30, 2018	\$ 31,502,251	\$ 49,332,931	\$ 43,390,942	\$ (5,941,989)

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

COLTON JOINT UNIFIED SCHOOL DISTRICT
Schedule of Proportionate Share of the Net Pension Liability
For the Fiscal Year Ended June 30, 2018

	Last Ten Fiscal Years*			
	2017	2016	2015	2014
CalSTRS				
District's proportion of the net pension liability	0.2146%	0.2140%	0.2250%	0.1770%
District's proportionate share of the net pension liability	\$ 198,446,468	\$ 173,085,340	\$ 151,479,000	\$ 103,433,490
State's proportionate share of the net pension liability associated with the District	46,344,915	98,548,904	80,115,478	62,458,234
Totals	<u>\$ 244,791,383</u>	<u>\$ 271,634,244</u>	<u>\$ 231,594,478</u>	<u>\$ 165,891,724</u>
District's covered-employee payroll	<u>\$ 113,288,831</u>	<u>\$ 110,239,338</u>	<u>\$ 100,580,991</u>	<u>\$ 90,159,745</u>
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	175.17%	157.01%	150.60%	114.72%
Plan fiduciary net position as a percentage of the total pension liability	69%	70%	74%	77%
CalPERS				
District's proportion of the net pension liability	0.3058%	0.3145%	0.3033%	0.2882%
District's proportionate share of the net pension liability	\$ 73,003,592	\$ 62,113,945	\$ 44,706,720	\$ 32,717,719
District's covered-employee payroll	<u>\$ 39,239,509</u>	<u>\$ 37,764,303</u>	<u>\$ 33,504,443</u>	<u>\$ 30,233,421</u>
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	186.05%	164.48%	133.44%	108.22%
Plan fiduciary net position as a percentage of the total pension liability	72%	74%	79%	83%

Notes to Schedule:

Changes in Benefit Terms

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

Change of Assumptions and Methods

CalSTRS:

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

CalPERS:

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

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

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

COLTON JOINT UNIFIED SCHOOL DISTRICT
Schedule of Pension Contributions
For the Fiscal Year Ended June 30, 2018

	Last Ten Fiscal Years*			
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
CalSTRS				
Contractually required contribution	\$ 16,218,550	\$ 14,251,735	\$ 11,828,681	\$ 8,931,592
Contributions in relation to the contractually required contribution	<u>16,218,550</u>	<u>14,251,735</u>	<u>11,828,681</u>	<u>8,931,592</u>
Contribution deficiency (excess):	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	<u>\$ 112,394,664</u>	<u>\$ 113,288,831</u>	<u>\$ 110,239,338</u>	<u>\$ 100,580,991</u>
Contributions as a percentage of covered-employee payroll	<u>14.43%</u>	<u>12.58%</u>	<u>10.73%</u>	<u>8.88%</u>
CalPERS				
Contractually required contribution	\$ 6,223,791	\$ 5,449,583	\$ 4,473,937	\$ 3,943,808
Contributions in relation to the contractually required contribution	<u>6,223,791</u>	<u>5,449,583</u>	<u>4,473,937</u>	<u>3,943,808</u>
Contribution deficiency (excess):	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	<u>\$ 40,073,344</u>	<u>\$ 39,239,509</u>	<u>\$ 37,764,303</u>	<u>\$ 33,504,443</u>
Contributions as a percentage of covered-employee payroll	<u>15.531%</u>	<u>13.888%</u>	<u>11.847%</u>	<u>11.771%</u>

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

COLTON JOINT UNIFIED SCHOOL DISTRICT*Schedule of Changes in the District's Total OPEB Liability and Related Ratios
For the Fiscal Year Ended June 30, 2018*

Last 10 Fiscal Years*

	<u>2017</u>
Total OPEB liability	
Service cost	\$ 4,888,948
Interest	2,080,731
Changes of assumptions or other inputs	(2,641,755)
Benefit payments	<u>(2,563,737)</u>
Net change in total OPEB liability	1,764,187
Total OPEB liability - beginning	<u>74,032,146</u>
Total OPEB liability - ending	<u><u>\$ 75,796,333</u></u>
Covered-employee payroll	<u>\$ 140,812,256</u>
Total OPEB liability as a percentage of covered-employee payroll	<u>53.83%</u>

Notes to Schedule:

Changes of assumptions. The discount rate was changed from 2.49% as of June 30, 2016 to 3.13% as of June 30, 2017, based on the published change in return for the applicable municipal bond index.

** 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 Changes in the District's Total OPEB Liability and Related Ratios – MPP Program
For the Fiscal Year Ended June 30, 2018**(Dollars in Thousands, except for District's proportionate share)*

	2017
Total OPEB liability	
Interest	\$ 12,928
Differences between expected and actual experience	(41)
Changes of assumptions	(31,240)
Benefit payments, including refunds of member contributions	(28,929)
Net change in total OPEB liability	(47,282)
Total OPEB liability - beginning	468,031
Total OPEB liability - ending	\$ 420,749
Plan fiduciary net position	
Contributions - employer	\$ 29,117
Net investment income	11
Premiums paid	(28,929)
Administrative expense	(168)
Net change in plan fiduciary net position	31
Plan fiduciary net position - beginning	10
Plan fiduciary net position - ending	\$ 41
Net OPEB liability	\$ 420,708
District's proportionate share of net OPEB liability	\$ 1,436,838
Plan fiduciary net position as a percentage of the total OPEB liability	0.01%
Covered-employee payroll	N/A
District's net OPEB liability as a percentage of covered-employee payroll	N/A

Notes to Schedule:*As of June 30, 2012, active members are no longer eligible for future enrollment in the MPP Program; therefore, the covered payroll disclosure is not applicable.**This schedule is required to show information for ten years; however, until a full ten year trend is compiled, information is presented for those years for which information is available.*

COLTON JOINT UNIFIED SCHOOL DISTRICT
Notes to the Required Supplementary Information
For the Fiscal Year Ended June 30, 2018

NOTE 1 – PURPOSE OF SCHEDULES

Budgetary Comparison Schedules

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

Schedule of Proportionate Share of the Net Pension Liability

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

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

Schedule of Pension Contributions

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

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

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

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

NOTE 2 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

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

<u>Appropriations Category</u>	<u>Excess Expenditures</u>
Employee Benefits	\$ 1,476,703

Supplementary Information

(This page intentionally left blank)

COLTON JOINT UNIFIED SCHOOL DISTRICT
Local Educational Agency Organization Structure
June 30, 2018

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

GOVERNING BOARD

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

DISTRICT ADMINISTRATORS

Mr. Jerry Almendarez,
Superintendent

Mrs. Amanda Corridan,
Assistant Superintendent, Student Services Division

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

Mrs. Ingrid Munsterman,
Assistant Superintendent, Human Resources Division

Mr. Mike Snellings,
Assistant Superintendent, Educational Services Division

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

	<u>Second Period Report</u>	<u>Annual Report</u>
	Certificate No. (76707367)	Certificate No. (A7724109)
Regular ADA:		
Transitional Kindergarten through Third	6,515.17	6,513.13
Fourth through Sixth	5,115.18	5,103.65
Seventh and Eighth	3,515.58	3,505.19
Ninth through Twelfth	6,288.73	6,177.79
Total Regular ADA	<u>21,434.66</u>	<u>21,299.76</u>
Special Education, Nonpublic, Nonsectarian Schools:		
Transitional Kindergarten through Third	0.73	0.73
Fourth through Sixth	7.86	9.54
Seventh and Eighth	3.65	5.60
Ninth through Twelfth	5.41	6.67
Total Special Education, Nonpublic, Nonsectarian Schools	<u>17.65</u>	<u>22.54</u>
Total ADA	<u><u>21,452.31</u></u>	<u><u>21,322.30</u></u>

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

<u>Grade Level</u>	<u>Required</u>	<u>2017-18 Actual Minutes</u>	<u>Number of Days Traditional Calendar*</u>	<u>Status</u>
Kindergarten	36,000	38,485	179	Complied
Grade 1	50,400	54,800	179	Complied
Grade 2	50,400	54,800	179	Complied
Grade 3	50,400	54,800	179	Complied
Grade 4	54,000	54,800	179	Complied
Grade 5	54,000	54,800	179	Complied
Grade 6	54,000	54,800	179	Complied
Grade 7	54,000	62,426	179	Complied
Grade 8	54,000	62,426	179	Complied
Grade 9	64,800	65,018	179	Complied
Grade 10	64,800	65,018	179	Complied
Grade 11	64,800	65,018	179	Complied
Grade 12	64,800	65,018	179	Complied

*The District was granted a waiver for one emergency day due to an area-wide power outage from lightning strikes.

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

General Fund	(Budget) 2019 ²	2018	2017	2016
Revenues and other financing sources	\$ 271,182,945	\$ 268,271,857	\$ 263,397,953	\$ 258,384,308
Expenditures	274,007,007	260,500,852	255,859,592	238,192,198
Other uses and transfers out	4,427,000	7,140,741	5,861,361	3,210,236
Total outgo	<u>278,434,007</u>	<u>267,641,593</u>	<u>261,720,953</u>	<u>241,402,434</u>
Change in fund balance (deficit)	<u>(7,251,062)</u>	<u>630,264</u>	<u>1,677,000</u>	<u>16,981,874</u>
Ending fund balance	<u>\$ 36,139,880</u>	<u>\$ 43,390,942</u>	<u>\$ 42,760,727</u>	<u>\$ 41,083,727</u>
Available reserves ¹	<u>\$ 22,816,546</u>	<u>\$ 14,708,914</u>	<u>\$ 13,456,924</u>	<u>\$ 17,117,432</u>
Available reserves as a percentage of total outgo	<u>8.2%</u>	<u>5.5%</u>	<u>5.1%</u>	<u>7.1%</u>
Total long-term debt	<u>\$ 591,001,472</u>	<u>\$ 599,198,099</u>	<u>\$ 558,406,634</u>	<u>\$ 425,665,740</u>
Average daily attendance at P-2	<u>21,082</u>	<u>21,452</u>	<u>21,764</u>	<u>21,999</u>

The General Fund balance has increased by \$2,307,215 over the past two years. The fiscal year 2018-19 adopted budget projects a decrease of \$7.3 million. For a district of this size, the state recommends available reserves of at least 3% of total general fund expenditures, transfers out, and other uses (total outgo).

The District has incurred an operating surplus in each of the past three years, but anticipates incurring an operating deficit during the 2018-19 fiscal year. Long-term debt has increased by nearly \$173.5 million over the past two years.

Average daily attendance has decreased by 547 over the past two years. A decrease of 370 ADA is anticipated during fiscal year 2018-19.

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, 2018.

The actual amounts reported in this schedule are for the General Fund only, and do not agree with the amounts reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances because the amounts on that schedule include the financial activity of the Deferred Maintenance Fund in accordance with the fund type definitions promulgated by GASB Statement No. 54.

COLTON JOINT UNIFIED SCHOOL DISTRICT

*Reconciliation of Annual Financial and Budget Report with Audited Financial Statements
For the Fiscal Year Ended June 30, 2018*

	<u>General Fund*</u>
June 30, 2018, annual financial and budget report (SACS) fund balances	\$ 44,951,830
Adjustments and reclassifications:	
Increasing (decreasing) the fund balance:	
SERP payment (prepaid expenditure)	<u>(1,560,888)</u>
June 30, 2018, audited financial statement fund balances	<u>\$ 43,390,942</u>

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

COLTON JOINT UNIFIED SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2018

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Cluster Expenditures	Federal Expenditures
Federal Programs:				
U.S. Department of Agriculture:				
Passed through California Dept. of Education (CDE):				
Child Nutrition Cluster:				
School Breakfast Program - Especially Needy	10.553	13526	\$ 1,640,377	
National School Lunch Program	10.555	13523	7,767,595	
USDA Donated Foods	10.555	N/A	<u>922,596</u>	
Total Child Nutrition Cluster				\$ 10,330,568
Child and Adult Care Food Program Cluster:				
Child and Adult Care Food Program	10.558	13393	528,696	
Child and Adult Care Food Program - Cash in lieu	10.558	N/A	<u>160,159</u>	
Total Child and Adult Care Food Program Cluster				<u>688,855</u>
Total U.S. Department of Agriculture				<u>11,019,423</u>
U.S. Department of Defense:				
Reserve Officer Training Corps (ROTC)	12.357	N/A		<u>95,119</u>
U.S. Department of Education:				
Passed through California Dept. of Education (CDE):				
Adult Education Cluster:				
Adult Secondary Education	84.002	13978	40,161	
Adult Basic Education & ESL	84.002A	14508	<u>11,709</u>	
Total Adult Education Cluster				51,870
Every Student Succeeds Act (ESSA):				
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329		8,078,111
Title I, Part G, Advanced Placement (AP) Test Fee Reimbursement	84.330	14831		13,629
Title II, Part A, Supporting Effective Instruction	84.386	14341		667,414
Title III, Limited English Proficiency	84.365	14346		578,639
Carl D. Perkins Career and Technical Education: Secondary	84.048	14894		160,975
Passed through East Valley SELPA:				
Individuals with Disabilities Education Act (IDEA):				
Special Education Cluster:				
Local Assistance Entitlement	84.027	13379	3,599,982	
Local Assistance, Part B, Sec 611, Private School ISPs	84.027	10115	40,851	
Preschool Grants, Part B, Sec 619	84.173	13430	78,964	
Preschool Local Entitlement, Part B, Sec 611	84.027A	13682	215,006	
Mental Health Allocation Plan, Part B, Sec 611	84.027A	14468	253,278	
Preschool Staff Development	84.173A	13431	<u>687</u>	
Total Special Education Cluster				<u>4,188,768</u>
Total U.S. Department of Education				<u>13,739,406</u>
U.S. Department of Health & Human Services:				
Passed through California Dept. of Education (CDE):				
Medi-Cal Billing Option	93.778	10013		550,359
Direct Federal to Local Program:				
Head Start	93.600	10016		<u>924,783</u>
Total U.S. Department of Health & Human Services				<u>1,475,142</u>
Total Expenditures of Federal Awards				<u>\$ 26,329,090</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, 2018

	Adult Education Fund	Child Development Fund	Cafeteria Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Capital Projects Fund for Blended Component Units	Total Non-Major Governmental Funds
ASSETS							
Cash	\$ 356,633	\$ 19,048	\$ 1,192,152	\$ 988	\$ 2,172,886	\$ -	\$ 3,741,707
Investments	-	-	-	-	-	101	101
Accounts receivable	110,491	576,038	1,622,057	4	8,535	-	2,317,125
Due from other funds	-	19,546	49,291	-	-	-	68,837
Inventories	-	-	38,197	-	-	-	38,197
Total Assets	<u>\$ 467,124</u>	<u>\$ 614,632</u>	<u>\$ 2,901,697</u>	<u>\$ 992</u>	<u>\$ 2,181,421</u>	<u>\$ 101</u>	<u>\$ 6,165,967</u>
LIABILITIES AND FUND BALANCES							
Liabilities							
Accounts payable	\$ 104,267	\$ 192,867	\$ 151,214	\$ -	\$ -	\$ -	\$ 448,348
Due to other funds	11,133	245,348	1,579,808	-	-	-	1,836,289
Total Liabilities	<u>115,400</u>	<u>438,215</u>	<u>1,731,022</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,284,637</u>
Fund Balances							
Nonspendable	-	-	63,197	-	-	-	63,197
Restricted	351,724	176,417	1,107,478	992	2,181,421	101	3,818,133
Total Fund Balances	<u>351,724</u>	<u>176,417</u>	<u>1,170,675</u>	<u>992</u>	<u>2,181,421</u>	<u>101</u>	<u>3,881,330</u>
Total Liabilities and Fund Balances	<u>\$ 467,124</u>	<u>\$ 614,632</u>	<u>\$ 2,901,697</u>	<u>\$ 992</u>	<u>\$ 2,181,421</u>	<u>\$ 101</u>	<u>\$ 6,165,967</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, 2018

	Adult Education Fund	Child Development Fund	Cafeteria Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Capital Projects Fund for Blended Component Units	Total Non-Major Governmental Funds
REVENUES							
Federal sources	\$ 51,870	\$ 924,783	\$ 11,019,423	\$ -	\$ -	\$ -	\$ 11,996,076
Other state sources	554,722	1,823,921	744,104	-	-	-	3,122,747
Other local sources	6,718	4,302	598,158	12	26,355	247	635,792
Total Revenues	613,310	2,753,006	12,361,685	12	26,355	247	15,754,615
EXPENDITURES							
Current:							
Instructional Services:							
Instruction	446,472	1,776,769	-	-	-	-	2,223,241
Instruction-Related Services:							
Supervision of instruction	48,478	4,158	-	-	-	-	52,636
School site administration	184,235	430,053	-	-	-	-	614,288
Pupil Support Services:							
Food services	-	119,590	12,507,722	-	-	-	12,627,312
All other pupil services	118,712	175,700	-	-	-	-	294,412
Plant Services	-	165,768	12,540	-	-	-	178,308
Transfers of Indirect Costs	35,904	126,554	-	-	-	-	162,458
Capital Outlay	-	-	-	-	3,600	867,018	870,618
Total Expenditures	833,801	2,798,592	12,520,262	-	3,600	867,018	17,023,273
Excess (Deficiency) of Revenues Over (Under) Expenditures	(220,491)	(45,586)	(158,577)	12	22,755	(866,771)	(1,268,658)
OTHER FINANCING SOURCES (USES)							
Interfund transfers in	-	-	33,826	-	-	-	33,826
Total Other Financing Sources and Uses	-	-	33,826	-	-	-	33,826
Net Change in Fund Balances	(220,491)	(45,586)	(124,751)	12	22,755	(866,771)	(1,234,832)
Fund Balances, July 1, 2017	572,215	222,003	1,295,426	980	2,158,666	866,872	5,116,162
Fund Balances, June 30, 2018	\$ 351,724	\$ 176,417	\$ 1,170,675	\$ 992	\$ 2,181,421	\$ 101	\$ 3,881,330

See accompanying note to supplementary information.

COLTON JOINT UNIFIED SCHOOL DISTRICT

Note to the Supplementary Information

June 30, 2018

NOTE 1 – PURPOSE OF SCHEDULES

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

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

Schedule of Financial Trends and Analysis

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

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

Schedule of Expenditures of Federal Awards

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

The following schedule provides a reconciliation between revenues reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts represent Federal funds that have been recorded as revenues that have not been expended by June 30, 2018.

	<u>CFDA Number</u>	<u>Amount</u>
Total Federal Revenues from the Statement of Revenues, Expenditures, and Changes in Fund Balances		\$ 26,095,156
Differences between Federal Revenues and Expenditures:		
E-Rate Technology Program	Not applicable	(980)
Medi-Cal Billing Option	93.778	234,914
Total Schedule of Expenditures of Federal Awards		<u>\$ 26,329,090</u>

Combining Fund Financial Statements

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

(This page intentionally left blank)

Other Independent Auditors' Reports

(This page intentionally left blank)



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

Board of Education
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, 2018, 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 November 13, 2018.

Internal Control Over Financial Reporting

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

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

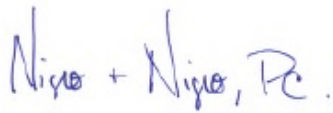
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

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

Purpose of this Report

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



Murrieta, California
November 13, 2018



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 2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting that could have a direct and material effect on each of the Colton Joint Unified School District's state government programs as noted on the following page for the fiscal year ended June 30, 2018.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Colton Joint Unified School District's state programs based on our audit of the types of compliance requirements referred to on the following page. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the 2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to on the following page that could have a direct and material effect on a state program occurred. An audit includes examining, on a test basis, evidence about Colton Joint Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each state program. However, our audit does not provide a legal determination of Colton Joint Unified School District's compliance.

In connection with the audit referred to above, we selected and tested transactions and records to determine the District's compliance with the State laws and regulations applicable to the following items:

Table with 2 columns: Description, Procedures Performed. Rows include: Local Education Agencies Other Than Charter Schools: Attendance (Yes), Teacher Certification and Misassignments (Yes), Kindergarten Continuance (Yes), Independent Study (No (see below)), Continuation Education (Yes), Instructional Time (Yes), Instructional Materials (Yes), Ratio of Administrative Employees to Teachers (Yes).

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

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

Unmodified Opinion on Compliance with State Programs

In our opinion, 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, 2018.

Nigro + Nigro, P.C.

Murrieta, California
November 13, 2018



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

Board of Education
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, 2018. 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, 2018.

Report on Internal Control Over Compliance

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

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

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

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



Murrieta, California
November 13, 2018

Findings and Questioned Costs

(This page intentionally left blank)

COLTON JOINT UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2018

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

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

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(s) identified not considered to be material weaknesses?	<u>None reported</u>
Type of auditors' report issued on compliance for major programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance, Section 200.516	<u>No</u>
Identification of major programs:	
<u>CFDA Numbers</u> <u>Name of Federal Program or Cluster</u>	
<u>10.553, 10.555</u> <u>Child Nutrition Cluster</u>	
Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 750,000</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

State Awards

Type of auditors' report issued on compliance for state programs:	<u>Unmodified</u>
---	-------------------

COLTON JOINT UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2018

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 2017-18.

COLTON JOINT UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2018

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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

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

COLTON JOINT UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2018

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

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

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

COLTON JOINT UNIFIED SCHOOL DISTRICT
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2018

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

(This page intentionally left blank)



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, 2018, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted matters that are an opportunity for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated November 13, 2018, 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* and *Bloomington High* we noted that some of the disbursements sampled were approved by the District Representative, the ASB advisor, and/or the student representative, but not until *after the expenditure had already been incurred*. In some cases, one or more signatures were not even obtained. Education Code Section 48933(b) requires all expenditures from ASB funds be authorized by a student representative, an advisor, and a district representative (usually a principal or vice-principal) prior to disbursing the funds.

Recommendation: As a “best practice”, approval by required parties should be obtained before the actual commitment to purchase the items in order to ensure the expense is a proper use of student-body funds and falls within budgetary guidelines. We recommend that the sites adopt a procedure for compliance with the Education Code in obtaining the required approvals.

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

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

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

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

ASSOCIATED STUDENT BODY (ASB) FUNDS (continued)

Observation: Through inquiry and testing at *Bloomington High* and *Colton High*, we noted accounts titled “Test Fees” and “Textbook Fees” which serve as clearance funds for the District and are not clubs which are operated by students. ASB accounts should not be used as pass-through or clearing accounts for District funds. Accepting the District funds into the ASB account is also considered commingling of funds.

Recommendation: We recommend that the site forward all District funds to the District for receipt or open a separate clearing account for funds to be transferred to the District on a monthly basis.

Observation: In our testing of cash receipts at *Bloomington High* and *Grand Terrace*, some deposits tested lacked sufficient supporting documentation. Without original supporting documentation, we could not verify whether all cash collected had been deposited intact and into the correct ASB accounts. Sound internal controls for handling cash discourage theft of ASB funds and protect those who handle the cash. It is important to tie all proceeds to the specific event from which they were generated and to ensure that all proceeds from an event are turned in and properly accounted for.

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

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

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

Observation: During our cash receipts testing at *Terrance Hills High* and *Colton High*, we found collections that were not deposited in a timely manner. Some of the collected checks were dated up to a month prior to being deposited to the bank.

Recommendation: We recommend that the site emphasize to the advisors and teachers that deposits should be made to the bookkeeper on a weekly basis or more often as needed. Money should never be left over the weekend or holidays because many thefts often occur during these times.

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

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

ACCRUED VACATION

Observation: The District contract with CSEA limits the maximum vacation carryover of up to 44 days (352 hours). During our testing of compensated absences, we noted that thirty-three employees had accrued more vacation than is allowable under the terms of the collective bargaining agreement as of June 30, 2018. Permitting employees to exceed the maximum allowed vacation carryover creates an additional estimated liability of \$122,741 and will continue to grow from cost of living and pay increases. Additionally, through inquiry, we noted that there is currently no policy regarding maximum vacation carryover for management employees.

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

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



Murrieta, California
November 13, 2018