

MORONGO UNIFIED SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

JUNE 30, 2013

MORONGO UNIFIED SCHOOL DISTRICT

TABLE OF CONTENTS JUNE 30, 2013

FINANCIAL SECTION

Independent Auditors' Report	2
Management's Discussion and Analysis	5
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Position	14
Statement of Activities	15
Fund Financial Statements	
Governmental Funds - Balance Sheet	16
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	17
Governmental Funds - Statement of Revenues, Expenditures, and Changes in Fund Balances	18
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	19
Proprietary Fund - Statement of Net Position	21
Proprietary Fund - Statement of Revenues, Expenses, and Changes in Net Position	22
Proprietary Fund - Statement of Cash Flows	23
Fiduciary Funds - Statement of Net Position	24
Notes to Financial Statements	25

REQUIRED SUPPLEMENTARY INFORMATION

General Fund - Budgetary Comparison Schedule	55
Schedule of Other Postemployment Benefits (OPEB) Funding Progress	56

SUPPLEMENTARY INFORMATION

Schedule of Expenditures of Federal Awards	58
Local Education Agency Organization Structure	60
Schedule of Average Daily Attendance	61
Schedule of Instructional Time	62
Reconciliation of Annual Financial and Budget Report With Audited Financial Statements	63
Schedule of Financial Trends and Analysis	64
Schedule of Charter Schools	65
Combining Statements - Non-Major Governmental Funds	
Combining Balance Sheet	66
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	67
Note to Supplementary Information	68

INDEPENDENT AUDITORS' REPORTS

Report on Internal Control Over Financial Reporting and on Compliance and Others Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Governmental Auditing Standards</i>	71
Report on Compliance for Each Major Program and Report on Internal Control Over Compliance Required by the OMB Circular A-133	73
Report on State Compliance	75

MORONGO UNIFIED SCHOOL DISTRICT

TABLE OF CONTENTS

JUNE 30, 2013

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Summary of Auditors' Results	78
Financial Statement Findings	79
Federal Awards Findings and Questioned Costs	80
State Awards Findings and Questioned Costs	81
Summary Schedule of Prior Audit Findings	82

FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

Governing Board
Morongo Unified School District
Twentynine Palms, 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 the Morongo Unified School District (the District) as of and for the year ended June 30, 2013, 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.

Auditor's 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Standards and Procedures for Audits of California K-12 Local Education Agencies 2012-2013*, issued by the California Education Audit Appeals Panel as regulations. 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 District'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 District'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.

Opinion

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 the Morongo Unified School District, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 13 and the budgetary comparison information and other postemployment benefits information on pages 55 and 56 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 Morongo Unified School District's basic financial statements. The *Schedule of Expenditures of Federal Awards*, as required by *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations (Circular A-133)* and other supplementary information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information as referenced in the previous paragraph is the responsibility of management and was derived from and relates 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 *Schedule of Expenditures of Federal Awards* and other supplementary information listed in the table of contents is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 25, 2013, on our consideration of the Morongo Unified School 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 Morongo Unified School District's internal control over financial reporting and compliance.

Vavrinek, Trine, Day & Co. LLP

Rancho Cucamonga, California
November 25, 2013



MORONGO

UNIFIED SCHOOL DISTRICT

Board of Education
Chris Proudfoot, President
Karalee Hargrove
Donna Munoz
Ron Palmer
Ed Will

5715 Utah Trail (P.O. Box 1209), Twentynine Palms, CA 92277 (760) 367-9191 or 365-3394 Fax: (760) 367-7189

This section of Morongo Unified School District's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2013, with comparative information from 2012. Please read it in conjunction with the District's financial statements, which immediately follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

The financial statements presented herein include all of the activities of the Morongo Unified School District and its component units using the integrated approach in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34.

The *Government-Wide Financial Statements* present the financial picture of the District from the economic resources measurement focus using the accrual basis of accounting. They present governmental activities. These statements include all assets of the District as well as all liabilities (including long-term obligations). Additionally, certain eliminations have occurred as prescribed by the statement in regards to interfund activity, payables, and receivables.

The *Fund Financial Statements* include statements for each of the two categories of activities: governmental and fiduciary.

The *Governmental Activities* are prepared using the current financial resources measurement focus and modified accrual basis of accounting.

The *Fiduciary Activities* are prepared using the economic resources measurement focus and the accrual basis of accounting.

The Primary unit of the government is the Morongo Unified School District.

The Management Discussion and Analysis Statements are provided to assist our citizens, taxpayers, and investors in reviewing the District's finances and to show the District's accountability for the money it receives.

MORONGO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

FINANCIAL HIGHLIGHTS OF THE PAST YEAR

- The District's government-wide Statement of Net Position shows total net position of \$76,830,651, the result of assets of \$134,473,323, minus liabilities of \$57,642,672.
- General revenues accounted for \$56,593,518 in revenue or 62.3 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$34,258,631 or 37.7 percent of total revenues of \$90,852,149.
- The District had \$80,306,950 in expenses related to governmental activities; only \$34,258,631 of these expenses was offset by program specific charges for services, grants, or contributions. General revenues (primarily State revenue limit sources and property taxes) of \$56,593,518 were adequate to provide for these programs.
- The General Fund reported a positive fund balance of \$22,968,973.

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Position and the Statement of Activities

The *Statement of Net Position* and the *Statement of Activities* report information about the District as a whole and about its activities. These statements include *all* assets and liabilities of the District using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's net position and changes in them. Net position is the difference between assets and liabilities, one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. Other factors to consider are changes in the district's property tax base and the condition of the District's facilities.

The relationship between revenues and expenses are the District's operating results. Since the Board's responsibility is to provide services to our students and not to generate profit as commercial entities do, one must consider other factors when evaluating the overall health of the District. The quality of the education and the safety of our schools will likely be an important component in this evaluation.

In the *Statement of Net Position* and the *Statement of Activities*, we present the District activities as follows:

Governmental Activities - Most of the District's services are reported in this category. This includes the education of kindergarten through grade twelve students, and the on-going effort to improve and maintain buildings and sites. Property taxes, State income taxes, user fees, interest income, as well as Federal, State, and local grants finance these activities.

MORONGO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds - not the District as a whole. Funds are required to be established by State law; however, management establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money that it receives from the U.S. Department of Education.

Governmental Funds - Most of the District's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at the year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the district's programs. The differences of results in the governmental fund financial statements to those in the government-wide financial statements are explained in a reconciliation following each governmental fund financial statement.

THE DISTRICT AS TRUSTEE

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or *fiduciary*, for funds held on behalf of others, like our funds for associated student body activities, scholarships, employee retiree benefits, and pensions. The District's fiduciary activities are reported in the *Fiduciary Funds - Statements of Net Position*. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

MORONGO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

THE DISTRICT AS A WHOLE

Net Position

The District's net position was \$76,830,651 for the fiscal year ended June 30, 2013. Of this amount \$18,714,810 was unrestricted. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the Board's ability to use the net position for day-to-day operations. Our analysis below focuses on the net position (Table 1), and change in net position (Table 2) of the District's governmental activities.

Table 1

	Governmental Activities	
	2013	2012
Assets		
Current and other assets	\$ 61,361,305	\$ 69,953,882
Capital assets	73,112,018	56,000,580
Total Assets	134,473,323	125,954,462
Liabilities		
Current liabilities	8,518,380	10,831,213
Long-term obligations	49,124,292	48,837,797
Total Liabilities	57,642,672	59,669,010
Net Position		
Net investment in capital assets	39,635,401	33,993,280
Restricted	18,480,440	15,486,113
Unrestricted	18,714,810	16,806,059
Total Net Position	\$ 76,830,651	\$ 66,285,452

MORONGO UNIFIED SCHOOL DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013**

Changes in Net Position

The change in total net position is due to an increase in receivables, and buildings and improvements for modernization projects.

Table 2

	<u>Governmental Activities</u>	
	<u>2013</u>	<u>2012</u>
Revenues		
Program revenues:		
Charges for services	\$ 1,313,172	\$ 1,389,417
Operating grants and contributions	20,862,952	21,085,977
Capital grants and contributions	12,082,507	11,744
General revenues:		
Federal and State aid not restricted to specific purposes	48,077,590	47,185,107
Property taxes	7,193,842	6,849,156
Other general revenues	1,322,086	3,534,205
Total Revenues	<u>90,852,149</u>	<u>80,055,606</u>
Expenses		
Instruction-related	53,257,505	59,007,400
Other pupil services	11,185,588	11,546,656
Administration	4,244,068	4,150,872
Maintenance and operations	8,290,442	8,565,230
Other	3,329,347	2,323,431
Total Expenses	<u>80,306,950</u>	<u>85,593,589</u>
Change in Net Position	<u>\$ 10,545,199</u>	<u>\$ (5,537,983)</u>

Governmental Activities

As reported in the *Statement of Activities*, the cost of all of our governmental activities this year was \$80,306,950. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$7,193,842 because the cost was paid by those who benefited from the programs (\$1,313,172) or by other governments and organizations who subsidized certain programs with grants and contributions (\$32,945,459). We paid for the remaining "public benefit" portion of our governmental activities with \$49,399,676 in State funds and other revenues, like interest and general entitlements.

MORONGO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

In Table 3, we have presented the net cost (total cost less revenues generated by the activities) of each of the District's largest functions – instruction-related activities, other pupil services, administration, maintenance and operations, and other activities. As discussed above, net cost shows the financial burden that was placed on the District's taxpayers by each of these functions. Providing this information allows our citizens to consider the cost of each function in comparison to the benefits they believe are provided by that function.

Table 3

	Net Cost by Function	
	2013	2012
Instruction-related activities	\$ 28,035,091	\$ 45,256,006
Other pupil services	3,727,834	4,327,315
Administration	3,369,551	3,387,306
Maintenance and operations	8,275,812	8,556,106
Other activities	2,640,031	1,579,718
Total	\$ 46,048,319	\$ 63,106,451

THE DISTRICT FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$52,542,854 which is a decrease of \$6,185,057 over last year.

Table 4

	Balances and Activity			
	July 1, 2012	Revenues	Expenditures	June 30, 2013
General Fund	\$ 22,646,044	\$ 72,158,316	\$ 71,835,387	\$ 22,968,973
Cafeteria Fund	438,951	3,786,099	3,988,551	236,499
Deferred Maintenance Fund	919,680	3,908	12,370	911,218
Building Fund	21,302,212	70,071	10,189,135	11,183,148
Capital Facilities Fund	10,983,616	684,143	153,071	11,514,688
County School Facilities Fund	367,036	12,082,508	8,945,984	3,503,560
Bond Interest and Redemption Fund	2,070,372	10,453,041	10,298,645	2,224,768
Total	\$ 58,727,911	\$ 99,238,086	\$ 105,423,143	\$ 52,542,854

MORONGO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

General Fund Budgetary Highlights

The District's budget is prepared in accordance with California law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund.

The District begins the budget process in January of each year, to be completed by June 30. During the course of the fiscal year, the District revises its budget as it deals with changes in revenues and expenditures.

Revenues were \$1,330,966 more than expected and expenditures were \$2,681,739 less than projected. The State of California had not finalized its budget at the time the original budget was adopted. Grant and entitlement amounts were not finalized until later in the year. Carryover amounts and ending balances are not determined until the books are finally closed.

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. (A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in our annual report on page 55.)

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets (Net of Depreciation)

At the end of fiscal year of 2013, the District had \$73,112,018 invested in land, buildings, equipment, and construction in progress. Table 5 shows fiscal year 2012-2013 balances compared to fiscal year 2011-2012 balances.

Table 5

	Governmental Activities	
	2013	2012
Land	\$ 1,958,169	\$ 1,958,169
Construction in progress	29,339,768	16,533,690
Buildings and improvements	40,607,013	35,961,966
Furniture and equipment	1,207,068	1,546,755
Total	\$ 73,112,018	\$ 56,000,580

We present more detailed information about our capital assets in Note 4 to the financial statements.

MORONGO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

Long-Term Obligations

At the end of this year, the District had \$45,923,920 of general obligation bonds payable, \$446,604 of premium on issuance, \$2,286,575 in supplemental early retirement program payable, \$335,041 in compensated absences payable, and \$132,152 in net OPEB obligation.

SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2012-2013 ARE NOTED BELOW

The Morongo Unified School District would like to recognize the following employees. Their expertise, hard work, and professionalism made the implementation of the integrated approach prescribed by Governmental Accounting Standards Board (GASB) Statement No. 34 possible. They are responsible for the success of this year's report:

- Diana Vining
- Sandi Pearce
- Marilyn Waters
- Valerie Paulus

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

In considering the District Budget for the 2013-2014 school year, the District Board and management used the following criteria:

The key assumptions in our revenue forecast are:

1. LCFF/Revenue Limit includes a 1.57 percent increase with 11.78 percent of the GAP funded.
2. Federal Sequestration continues at a loss of 8.2 percent.

Expenditures are based on the following forecasts:

	<u>Staffing Ratio</u>	<u>Enrollment</u>
Grades kindergarten through three	26:1	2,919
Grades four through six	27:1	1,847
Grades seven through twelve	26:1	1,178
Grades nine through twelve	29:1	2,098

The major changes to expenditure items specifically addressed in the budget are:

1. Employee step and column increases, and no furlough days.

MORONGO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for money it receives. If you have questions about this report or need any additional financial information, contact David Price, Assistant Superintendent-Business Services, Morongo Unified School District, 5715 Utah Trail, P.O. Box 1209, Twentynine Palms, CA 92277 or david_price@morongo.k12.ca.us.

MORONGO UNIFIED SCHOOL DISTRICT

STATEMENT OF NET POSITION JUNE 30, 2013

	Governmental Activities
ASSETS	
Deposits and investments	\$ 45,673,530
Receivables	15,543,839
Prepaid expenditures	3,416
Deferred cost on issuance	24,114
Stores inventories	116,406
Capital assets	
Land and construction in progress	31,297,937
Other capital assets	88,063,997
Less: Accumulated depreciation	(46,249,916)
Capital assets, net of accumulated depreciation	<u>73,112,018</u>
Total Assets	<u><u>134,473,323</u></u>
LIABILITIES	
Accounts payable	7,695,392
Interest payable	529,955
Deferred revenue	293,033
Long-term obligations	
Current portion of long-term obligations	1,036,644
Noncurrent portion of long-term obligations	48,087,648
Total Long-Term Obligations	<u>49,124,292</u>
Total Liabilities	<u><u>57,642,672</u></u>
NET POSITION	
Net investment in capital assets	39,635,401
Restricted for:	
Debt service	1,694,813
Capital projects	14,043,757
Educational programs	2,505,371
Other activities	236,499
Unrestricted	<u>18,714,810</u>
Total Net Position	<u><u>\$ 76,830,651</u></u>

The accompanying notes are an integral part of these financial statements.

MORONGO UNIFIED SCHOOL DISTRICT

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2013

Functions/Programs	Expenses	Program Revenues			Net (Expenses)
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Revenues and Changes in Net Position
					Governmental Activities
Governmental Activities:					
Instruction	\$ 45,223,248	\$ 125,234	\$ 11,265,227	\$ 12,082,507	\$ (21,750,280)
Instruction-related activities:					
Supervision of instruction	2,485,539	-	1,636,184	-	(849,355)
Instructional library, media and technology	617,588	-	30,864	-	(586,724)
School site administration	4,931,130	-	82,398	-	(4,848,732)
Pupil services:					
Home-to-school transportation	3,070,289	-	2,129,462	-	(940,827)
Food services	4,002,939	643,462	3,053,921	-	(305,556)
All other pupil services	4,112,360	-	1,630,909	-	(2,481,451)
Administration:					
Data processing	1,011,290	19,005	50,950	-	(941,335)
All other administration	3,232,778	15,228	789,334	-	(2,428,216)
Plant services	8,290,442	5,989	8,641	-	(8,275,812)
Ancillary services	263,673	-	935	-	(262,738)
Community services	127,758	-	46,334	-	(81,424)
Interest on long-term obligations	2,006,580	-	-	-	(2,006,580)
Other outgo	931,336	504,254	137,793	-	(289,289)
Total Governmental Activities	\$ 80,306,950	\$ 1,313,172	\$ 20,862,952	\$ 12,082,507	(46,048,319)
General revenues and subventions:					
Property taxes, levied for general purposes					5,174,200
Property taxes, levied for debt service					2,019,642
Taxes levied for other specific purposes					493,338
Federal and State aid not restricted to specific purposes					48,077,590
Interest and investment earnings					165,320
Miscellaneous					663,428
Subtotal, General Revenues					56,593,518
Change in Net Position					10,545,199
Net Position - Beginning					66,285,452
Net Position - Ending					\$ 76,830,651

The accompanying notes are an integral part of these financial statements.

MORONGO UNIFIED SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2013**

	General Fund	Building Fund	Capital Facilities Fund
ASSETS			
Deposits and investments	\$ 20,699,400	\$ 12,157,639	\$ 4,987,859
Receivables	14,786,312	9,448	7,166
Due from other funds	840,152	-	6,544,923
Prepaid expenditures	3,416	-	-
Stores inventories	26,477	-	-
Total Assets	\$ 36,355,757	\$ 12,167,087	\$ 11,539,948
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 6,566,949	\$ 983,939	\$ 25,260
Due to other funds	6,544,923	-	-
Deferred revenue	274,912	-	-
Total Liabilities	13,386,784	983,939	25,260
Fund Balances:			
Nonspendable	64,893	-	-
Restricted	2,505,371	11,183,148	11,514,688
Committed	-	-	-
Assigned	9,993,460	-	-
Unassigned	10,405,249	-	-
Total Fund Balances	22,968,973	11,183,148	11,514,688
Total Liabilities and Fund Balances	\$ 36,355,757	\$ 12,167,087	\$ 11,539,948

The accompanying notes are an integral part of these financial statements.

County School Facilities Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ 3,616,021	\$ 3,407,305	\$ 44,868,224
3,590	736,717	15,543,233
-	-	7,385,075
-	-	3,416
-	89,929	116,406
<u>\$ 3,619,611</u>	<u>\$ 4,233,951</u>	<u>\$ 67,916,354</u>
\$ 116,051	\$ 3,193	\$ 7,695,392
-	840,152	7,385,075
-	18,121	293,033
<u>116,051</u>	<u>861,466</u>	<u>15,373,500</u>
-	89,979	154,872
3,503,560	2,371,288	31,078,055
-	911,218	911,218
-	-	9,993,460
-	-	10,405,249
<u>3,503,560</u>	<u>3,372,485</u>	<u>52,542,854</u>
<u>\$ 3,619,611</u>	<u>\$ 4,233,951</u>	<u>\$ 67,916,354</u>

MORONGO UNIFIED SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2013**

Total Fund Balance - Governmental Funds		\$ 52,542,854
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
The cost of capital assets is the following	\$ 119,361,934	
Accumulated depreciation is the following	<u>(46,249,916)</u>	
Net Capital Assets		73,112,018
Expenditures relating to issuance of debt of next fiscal year were recognized in modified accrual basis, but should not be recognized in accrual basis.		24,114
In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. On the government-wide financial statements, unmatured interest on long-term obligations is recognized when it is incurred.		(529,955)
An internal service fund is used by the District's management to account for the costs of the property and liability insurance program to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities. Internal service fund net assets are:		805,912
Long-term obligations at year-end consist of the following:		
General obligation bonds	45,187,652	
Unamortized premium amount on issuance	446,604	
Supplemental early retirement program	2,286,575	
Compensated absences	335,041	
Net OPEB obligation	132,152	
In addition, the District previously issued "capital appreciation" general obligation bonds. The cumulative capital accretion on the general obligation bonds is:		
Total Long-Term Obligations	<u>736,268</u>	<u>(49,124,292)</u>
Total Net Position - Governmental Activities		<u><u>\$ 76,830,651</u></u>

The accompanying notes are an integral part of these financial statements.

MORONGO UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED JUNE 30, 2013

	General Fund	Building Fund	Capital Facilities Fund
REVENUES			
Revenue limit sources	\$ 44,304,097	\$ -	\$ -
Federal sources	9,680,535	-	-
Other State sources	17,069,070	-	-
Other local sources	1,104,614	70,071	684,143
Total Revenues	72,158,316	70,071	684,143
EXPENDITURES			
Current			
Instruction	43,901,480	-	-
Instruction-related activities:			
Supervision of instruction	2,490,229	-	-
Instructional library, media, and technology	585,425	-	-
School site administration	4,885,189	-	-
Pupil services:			
Home-to-school transportation	3,074,442	-	-
Food services	6,068	-	-
All other pupil services	4,128,088	-	-
Administration:			
Data processing	862,887	-	-
All other administration	3,119,820	-	-
Plant services	8,265,966	-	17,785
Facility acquisition and construction	6,950	10,189,135	135,286
Ancillary services	259,107	-	-
Community services	127,758	-	-
Other outgo	121,978	-	-
Debt service			
Principal	-	-	-
Interest and other	-	-	-
Total Expenditures	71,835,387	10,189,135	153,071
Excess (Deficiency) of Revenues			
Over Expenditures	322,929	(10,119,064)	531,072
OTHER FINANCING SOURCES (USES)			
Other sources	-	-	-
Other uses	-	-	-
Net Financing Sources (Uses)	-	-	-
NET CHANGE IN FUND BALANCES	322,929	(10,119,064)	531,072
Fund Balances - Beginning	22,646,044	21,302,212	10,983,616
Fund Balances - Ending	\$ 22,968,973	\$ 11,183,148	\$ 11,514,688

The accompanying notes are an integral part of these financial statements.

County School Facilities Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 44,304,097
-	2,873,224	12,553,759
12,066,275	252,432	29,387,777
16,233	2,728,034	4,603,095
<u>12,082,508</u>	<u>5,853,690</u>	<u>90,848,728</u>
-	-	43,901,480
-	-	2,490,229
-	-	585,425
-	-	4,885,189
-	-	3,074,442
-	3,894,767	3,900,835
-	-	4,128,088
-	-	862,887
-	86,450	3,206,270
-	19,704	8,303,455
8,945,984	-	19,277,355
-	-	259,107
-	-	127,758
-	-	121,978
-	445,000	445,000
-	1,464,287	1,464,287
<u>8,945,984</u>	<u>5,910,208</u>	<u>97,033,785</u>
<u>3,136,524</u>	<u>(56,518)</u>	<u>(6,185,057)</u>
-	8,389,358	8,389,358
-	(8,389,358)	(8,389,358)
-	-	-
<u>3,136,524</u>	<u>(56,518)</u>	<u>(6,185,057)</u>
367,036	3,429,003	58,727,911
<u>\$ 3,503,560</u>	<u>\$ 3,372,485</u>	<u>\$ 52,542,854</u>

MORONGO UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2013

Total Net Change in Fund Balances - Governmental Funds Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:	\$ (6,185,057)
<p>Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures, however, for governmental activities, those costs are shown in the Statement of Net Position and allocated over their estimated useful lives as annual depreciation expenses in the Statement of Activities. This is the amount by which capital outlays exceed depreciation in the period.</p>	
Capital outlays	\$ 19,360,441
Depreciation expense	<u>(2,249,003)</u>
	17,111,438
<p>Proceeds received from issuance of debt is a revenue in the governmental funds, but it increases long-term obligations in the Statement of Net Position and does not affect the Statement of Activities:</p>	
Sale of general obligation bonds	(7,935,000)
<p>Governmental funds report the effect of premiums, discounts, issuance costs, and the deferred amount on a refunding when the debt is first issued, whereas the amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these related items:</p>	
Premium on issuance	(454,358)
<p>In the Statement of Activities, certain operating expenses - compensated absences (vacations) and special termination benefits (early retirement) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, special termination benefits used was more than amounts earned by \$523,575. Vacation used was more than amounts earned by \$22,379.</p>	
	545,954
<p>In the Statement of Activities, Other Postemployment Benefit Obligations (OPEB) are measured by an actuarially determined Annual Required Contribution (ARC). In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, amounts contributed toward the OPEB obligation were less than the ARC by \$23,906.</p>	
	(23,906)

The accompanying notes are an integral part of these financial statements.

MORONGO UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2013

Repayment of debt principal is an expenditure in the governmental funds, but it reduces long-term obligations in the Statement of Net Position and does not affect the Statement of Activities.

General obligation bonds	\$ 8,025,000
--------------------------	--------------

Under the modified basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the Statement of Activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available.

Amortization of premium	\$ 161,281	
Amortization of cost of issuance	<u>(128,610)</u>	
Combined adjustment		32,671

Interest on long-term obligations in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the Statement of Activities is the result of two factors. First, accrued interest on the general obligation bonds decreased by \$30,502, and second, \$605,466 of additional accumulated interest was accreted on the District's "capital appreciation" general obligation bonds.

(574,964)

An internal service fund is used by the District's management to account for the costs of the self-insurance property and liability program. The change in net position of the internal service fund is reported with governmental activities.

3,421

Change in Net Position of Governmental Activities

\$ 10,545,199

The accompanying notes are an integral part of these financial statements.

MORONGO UNIFIED SCHOOL DISTRICT

**PROPRIETARY FUND
STATEMENT OF NET POSITION
JUNE 30, 2013**

	<u>Governmental Activities</u> <u>Internal Service Fund</u>
ASSETS	
Current Assets	
Deposits and investments	\$ 805,306
Receivables	606
Total Current Assets	<u>805,912</u>
 NET POSITION	
Unrestricted	<u>\$ 805,912</u>

The accompanying notes are an integral part of these financial statements.

MORONGO UNIFIED SCHOOL DISTRICT

**PROPRIETARY FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Governmental Activities</u> <u>Internal Service Fund</u>
OPERATING REVENUES	
Charges for services	\$ -
Total Operating Revenues	<u>-</u>
 NON-OPERATING REVENUES	
Interest income	<u>3,421</u>
 Change in Net Position	3,421
Total Net Position - Beginning	<u>802,491</u>
Total Net Position - Ending	<u><u>\$ 805,912</u></u>

The accompanying notes are an integral part of these financial statements.

MORONGO UNIFIED SCHOOL DISTRICT

**PROPRIETARY FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Internal Service Fund Self-Insurance</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash payments to other suppliers of goods or services	\$ 383
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	3,421
Net Increase in Cash and Cash Equivalents	3,804
Cash and Cash equivalents - Beginning	801,502
Cash and Cash Equivalents - Ending	<u>\$ 805,306</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating gain	\$ -
Changes in assets and liabilities:	
Accounts receivable	383
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 383</u>

The accompanying notes are an integral part of these financial statements.

MORONGO UNIFIED SCHOOL DISTRICT

**FIDUCIARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2013**

	<u>Agency Funds</u>
ASSETS	
Deposits and investments	\$ 309,047
Stores inventories	17,360
Total Assets	<u>\$ 326,407</u>
 LIABILITIES	
Due to student groups	<u>\$ 326,407</u>

The accompanying notes are an integral part of these financial statements.

MORONGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Morongo Unified School District (the District) was unified under the laws of the State of California. The District operates under a locally elected five-member Board form of government and provides educational services to grades K-12 as mandated by the State and/or Federal agencies. The District operates eleven elementary schools, two middle schools, two comprehensive high schools, two continuation high schools, and an independent study program.

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, boards, and agencies that are not legally separate from the District. For Morongo Unified School District, this includes general operations, food service, and student related activities of the District.

Basis of Presentation - Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The District's funds are grouped into three broad fund categories: governmental, proprietary, and fiduciary.

Governmental Funds Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District's major and non-major governmental funds:

Major Governmental Funds

General Fund The General Fund is the chief operating fund for all districts. It is used to account for the ordinary operations of the District. All transactions except those accounted for in another fund are accounted for in this fund.

Building Fund The Building Fund exists primarily to account separately for proceeds from the sale of bonds (*Education Code* Section 15146) and may not be used for any purposes other than those for which the bonds were issued.

Capital Facilities Fund The Capital Facilities Fund is used primarily to account separately for monies received from fees levied on developers or other agencies as a condition of approving a development (*Education Code* Sections 17620-17626). Expenditures are restricted to the purposes specified in *Government Code* Sections 65970-65981 or to the items specified in agreements with the developer (*Government Code* Section 66006).

MORONGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

County School Facilities Fund The County School Facilities Fund is established pursuant to *Education Code* Section 17070.43 to receive apportionments from the 1998 State School Facilities Fund (Proposition 1A), the 2002 State School Facilities Fund (Proposition 47), or the 2004 State School Facilities Fund (Proposition 55) authorized by the State Allocation Board for new school facility construction, modernization projects, and facility hardship grants, as provided in the Leroy F. Greene School Facilities Act of 1998 (*Education Code* Section 17070 et seq.).

Non-Major Governmental Funds

Special Revenue Funds The Special Revenue funds are established to account for the proceeds from specific revenue sources (other than trusts, major capital projects, or debt service) that are restricted or committed to the financing of particular activities and that compose a substantial portion of the inflows of the fund. Additional resources that are restricted, committed, or assigned to the purpose of the fund may also be reported in the fund.

Cafeteria Fund The Cafeteria Fund is used to account separately for Federal, State, and local resources to operate the food service program (*Education Code* Sections 38090-38093) and is used only for those expenditures authorized by the governing board as necessary for the operation of the District's food service program (*Education Code* Sections 38091 and 38100).

Deferred Maintenance Fund The Deferred Maintenance Fund is used to account separately for State apportionments and the District's contributions for deferred maintenance purposes (*Education Code* Sections 17582-17587) and for items of maintenance approved by the State Allocation Board.

Debt Service Funds The Debt Service funds are used to account for the accumulation of restricted, committed, or assigned resources for and the payment of principal and interest on general long-term obligations.

Bond Interest and Redemption Fund The Bond Interest and Redemption Fund is used for the repayment of bonds issued for a District (*Education Code* Sections 15125-15262).

Proprietary Funds Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows. The District applies all GASB pronouncements, as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. Proprietary funds are classified as enterprise or internal service. The District has the following proprietary fund:

Internal Service Fund Internal Service funds may be used to account for any activity for which services are provided to other funds of the District on a cost-reimbursement basis. The District operates a self-insurance property and liability fund that is accounted for in an internal service fund.

Fiduciary Funds Fiduciary funds are used to account for assets held in trustee or agent capacity for others that cannot be used to support the District's own programs. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. The key distinction between trust and agency funds is that trust funds are subject to a trust agreement that affects the degree of management involvement and the length of time that the resources are held.

MORONGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

Trust funds are used to account for the assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore, not available to support the District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Such funds have no equity accounts since all assets are due to individuals or entities at some future time. The District's agency fund accounts for student body activities (ASB).

Basis of Accounting - Measurement Focus

Government-Wide Financial Statements The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements, but differs from the manner in which governmental fund financial statements are prepared.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each governmental program, and excludes fiduciary activity. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the Statement of Activities. Program revenues include charges paid by the recipients of the goods or services offered by the programs and 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 are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program is self-financing or draws from the general revenues of the District. Eliminations have been made to minimize the double counting of internal activities.

Net position should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net position restricted for other activities result from special revenue funds and the restrictions on their net asset use.

Fund Financial Statements Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements.

Governmental Funds All governmental funds are accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental funds on a modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

MORONGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

Proprietary Funds Proprietary funds are accounted for using a flow of economic resources measurement focus and the accrual basis of accounting. All assets and all liabilities associated with the operation of this fund are included in the statement of net position. The statement of changes in fund net position presents increases (revenues) and decreases (expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary fund.

Fiduciary Funds Fiduciary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting.

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 or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within 90 days of fiscal year-end. 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.

Deferred Revenue Deferred 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 deferred revenue is removed from the combined balance sheet and revenue is recognized.

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

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable, and typically paid within 90 days. Principal and interest on long-term obligations, which has not matured, are recognized when paid in the governmental funds as expenditures. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds but are recognized in the entity-wide statements.

MORONGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Cash equivalents also include cash with county treasury balances for purposes of the statement of cash flows.

Investments

Investments held at June 30, 2013, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost.

Prepaid Expenditures

Prepaid expenditures (expenses) represent amounts paid in advance of receiving goods or services. The District has the option of reporting an expenditure in governmental funds for prepaid items either when purchased or during the benefiting period.

Stores Inventories

Inventories consist of expendable food and supplies held for consumption. Inventories are stated at cost, on the weighted average basis. The costs of inventory items are recorded as expenditures in the governmental type funds when used.

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the District. The District maintains a capitalization threshold of \$5,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, but are expensed as incurred.

When purchased, such assets are recorded as expenditures in the governmental funds and capitalized in the government-wide statement of net position. The valuation basis for capital assets is historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. Donated capital assets are capitalized at estimated fair market value on the date donated.

Capital assets in the proprietary funds are capitalized in the fund in which they are utilized. The valuation basis for property fund capital assets is the same as those used for the capital assets of governmental funds. Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 20 to 50 years; improvements/infrastructure, 5 to 50 years; equipment, 2 to 15 years.

MORONGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental activities of the statement of net position.

Compensated Absences

Compensated absences are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide statement of net position. For governmental funds, the current portion of unpaid compensated absences is recognized upon the occurrence of relevant events such as employee resignations and retirements that occur prior to year-end that have not yet been paid with expendable available financial resources. These amounts are reported in the fund from which the employees who have accumulated leave are paid.

Sick leave is accumulated without limit for each employee at the rate of one day for each month worked. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulated sick leave. Employees are never paid for any sick leave balance at termination of employment or any other time. Therefore, the value of accumulated sick leave is not recognized as a liability in the District's financial statements. However, credit for unused sick leave is applicable to all classified school members who retire after January 1, 1999. At retirement, each member will receive .004 year of service credit for each day of unused sick leave. Credit for unused sick leave is applicable to all certificated employees and is determined by dividing the number of unused sick days by the number of base service days required to complete the last school year, if employed full-time.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide and proprietary fund financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds.

However, claims and judgments, special termination benefits, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Capital leases are recognized as liabilities in the governmental fund financial statements when due.

Deferred Issuance Costs, Premiums and Discounts

In the government-wide financial statements and in the proprietary fund type financial statements, long-term obligations and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method.

MORONGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

Fund Balances - Governmental Funds

As of June 30, 2013, fund balances of the governmental funds are classified as follows:

Nonspendable - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed - amounts that can be used only for specific purposes determined by a formal action of the governing board. The governing board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through resolutions or other action as approved by the governing board.

Assigned - amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the District's adopted policy, only the governing board or chief business officer/assistant superintendent of business services may assign amounts for specific purposes.

Unassigned - all other spendable amounts.

Spending Order Policy

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are 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.

Minimum Fund Balance Policy

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

Net Position

Net position represents the difference between assets and liabilities. Net position net of investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. The government-wide financial statements report \$18,480,440 of restricted net position.

MORONGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are transfers from the General Fund. Operating expenses are for claims paid. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

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 purposes of the budget, on behalf payments have not been included as revenue and expenditures as required under generally accepted accounting principles.

Property Tax

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 15 and March 15 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County of San Bernardino bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

MORONGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

Changes in Accounting Principles

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

Concepts Statement No. 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

The District has implemented the provisions of this Statement for the year ended June 30, 2013.

New Accounting Pronouncements

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. In addition, Concepts Statement No. 4 provides that reporting a deferred outflow of resources or a deferred inflow of resources should be limited to those instances identified by the Board in authoritative pronouncements that are established after applicable due process. Prior to the issuance of this Statement, only two such pronouncements have been issued. Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, requires the reporting of a deferred outflow of resources or a deferred inflow of resources for the changes in fair value of hedging derivative instruments, and Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, requires a deferred inflow of resources to be reported by a transferor government in a qualifying service concession arrangement. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement No. 4.

This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations.

The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Early implementation is encouraged.

MORONGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by State and local governmental employers about financial support for pensions 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 pensions 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 Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements No. 27 and No. 50 remain applicable for pensions that are not covered by the scope of this Statement.

Statement No. 67, *Financial Reporting for Pension Plans*, revises existing standards of financial reporting for most pension plans. This Statement and Statement No. 67 establish a definition of a pension plan that reflects the primary activities associated with the pension arrangement - determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due.

The scope of this Statement addresses accounting and financial reporting for pensions that are provided to the employees of State and local governmental employers through pension plans that are administered through trusts that have the following characteristics:

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

This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

This Statement is effective for fiscal years beginning after June 15, 2014. Earlier implementation is encouraged.

MORONGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2013, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 45,673,530
Fiduciary funds	309,047
Total Deposits and Investments	<u>\$ 45,982,577</u>

Deposits and investments as of June 30, 2013, consist of the following:

Cash on hand and in banks	\$ 581,001
Cash in revolving	35,050
Investments	45,366,526
Total Deposits and Investments	<u>\$ 45,982,577</u>

Policies and Practices

The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations.

Investment in County Treasury - The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (*Education Code* Section 41001). The fair value of the District's investment in the pool is reported in the accounting financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

MORONGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

General Authorizations

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedules below:

<u>Authorized Investment Type</u>	<u>Maximum Remaining Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment In One Issuer</u>
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the county pool and having the pool purchase a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

MORONGO UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

Specific Identification

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuation is provided by the following schedule that shows the distribution of the District's investment by maturity:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted-Average Days to Maturity</u>
San Bernardino County Investment Pool	<u>\$45,321,159</u>	381

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of the year-end for each investment type.

<u>Investment Type</u>	<u>Minimum Legal Rating</u>	<u>Rating June 30, 2013</u>	<u>Fair Value</u>
San Bernardino County Investment Pool	Not Required	AAA/V1	<u>\$ 45,321,159</u>

Custodial Credit Risk - Deposits

This 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. However, 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 agency. As of June 30, 2013, none of the District's bank balance was exposed to custodial credit risk.

MORONGO UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 3 - RECEIVABLES

Receivables at June 30, 2013, consisted of intergovernmental grants, entitlements, interest, and other local sources. All receivables are considered collectible in full.

	General Fund	Building Fund	Capital Facilities Fund	County School Facilities Fund
Federal Government				
Categorical aid	\$ 1,322,847	\$ -	\$ -	\$ -
State Government				
Apportionment	1,174,243	-	-	-
Categorical aid	11,054,174	-	-	-
Lottery	662,015	-	-	-
Local Government				
Interest	13,155	9,448	5,650	3,590
Other Local Sources	559,878	-	1,516	-
Total	<u>\$ 14,786,312</u>	<u>\$ 9,448</u>	<u>\$ 7,166</u>	<u>\$ 3,590</u>

	Non-Major Governmental Funds	Internal Service Fund	Total Governmental Activities
Federal Government			
Categorical aid	\$ 676,066	\$ -	\$ 1,998,913
State Government			
Apportionment	-	-	1,174,243
Categorical aid	55,653	-	11,109,827
Lottery	-	-	662,015
Local Government			
Interest	685	606	33,134
Other Local Sources	4,313	-	565,707
Total	<u>\$ 736,717</u>	<u>\$ 606</u>	<u>\$ 15,543,839</u>

MORONGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2013, was as follows:

	Balance July 1, 2012	Additions	Deductions	Balance June 30, 2013
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 1,958,169	\$ -	\$ -	\$ 1,958,169
Construction in process	16,533,690	19,270,407	6,464,329	29,339,768
Total Capital Assets Not Being Depreciated	18,491,859	19,270,407	6,464,329	31,297,937
Capital Assets Being Depreciated				
Land improvements	11,968,409	6,950	-	11,975,359
Buildings and improvements	61,661,949	6,439,040	-	68,100,989
Furniture and equipment	7,911,193	108,373	31,917	7,987,649
Total Capital Assets Being Depreciated	81,541,551	6,554,363	31,917	88,063,997
Less Accumulated Depreciation				
Land improvements	9,056,142	207,463	-	9,263,605
Buildings and improvements	28,612,250	1,593,480	-	30,205,730
Furniture and equipment	6,364,438	448,060	31,917	6,780,581
Total Accumulated Depreciation	44,032,830	2,249,003	31,917	46,249,916
Governmental Activities Capital Assets, Net	<u>\$ 56,000,580</u>	<u>\$ 23,575,767</u>	<u>\$ 6,464,329</u>	<u>\$ 73,112,018</u>

Depreciation expense was charged to governmental functions as follows:

Governmental Activities	
Instruction	\$ 1,747,108
Supervision of instruction	8,605
Instructional library, media, and technology	33,131
School site administration	66,803
Home-to-school transportation	1,789
Food services	108,148
Ancillary services	4,566
Other general administration	73,985
Data processing	150,410
Plant services	54,458
Total Depreciation Expenses Governmental Activities	<u>\$ 2,249,003</u>

MORONGO UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 5 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund receivable and payable balances at June 30, 2013, between major and non-major governmental funds, non-major enterprise funds, internal service funds, and fiduciary funds are as follows:

Due To	Due From		
	General Fund	Non-Major Governmental Funds	Total
General Fund	\$ -	\$ 840,152	\$ 840,152
Capital Facilities Fund	6,544,923	-	6,544,923
Total	<u>\$ 6,544,923</u>	<u>\$ 840,152</u>	<u>\$ 7,385,075</u>

The balance of \$840,152 is due to the General Fund from the Cafeteria Non-Major Governmental Fund for payroll and operating expenses.

The balance of \$6,544,923 is due to the Capital Facilities Fund from the General Fund for temporary loan.

Balances resulted from the time lag between the date that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2013, consisted of the following:

	General Fund	Building Fund	Capital Facilities Fund	County School Facilities Fund	Non-Major Governmental Funds	Total Governmental Activities
Vendor payables	\$ 1,544,442	\$ -	\$ 17,785	\$ -	\$ 3,193	\$ 1,565,420
State apportionment	138,856	-	-	-	-	138,856
Salaries and benefits	4,883,651	-	-	-	-	4,883,651
Construction	-	983,939	7,475	116,051	-	1,107,465
Total	<u>\$ 6,566,949</u>	<u>\$ 983,939</u>	<u>\$ 25,260</u>	<u>\$ 116,051</u>	<u>\$ 3,193</u>	<u>\$ 7,695,392</u>

MORONGO UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 7 - DEFERRED REVENUE

Deferred revenue at June 30, 2013, consists of the following:

	General Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal financial assistance	\$ 271,407	\$ -	\$ 271,407
State categorical aid	3,077	-	3,077
Other local	428	18,121	18,549
Total	<u>\$ 274,912</u>	<u>\$ 18,121</u>	<u>\$ 293,033</u>

NOTE 8 - LONG-TERM OBLIGATIONS

Summary

The changes in the District's long-term obligations during the year consisted of the following:

	Balance July 1, 2012	Additions	Deductions	Balance June 30, 2013	Due in One Year
General obligation bonds payable	\$ 45,408,454	\$ 8,540,466	\$ 8,025,000	\$ 45,923,920	\$ 465,000
Premium on issuance	153,527	454,358	161,281	446,604	-
Supplemental Early Retirement Program (SERP)	2,810,150	48,069	571,644	2,286,575	571,644
Compensated absences	357,420	-	22,379	335,041	-
Net OPEB obligation	108,246	158,578	134,672	132,152	-
	<u>\$ 48,837,797</u>	<u>\$ 9,201,471</u>	<u>\$ 8,914,976</u>	<u>\$ 49,124,292</u>	<u>\$ 1,036,644</u>

- Payments for bonds associated with General Obligation Bonds are made in the Bond Interest and Redemption (Debt Service) Fund.
- Payments for supplemental early retirement program are made in the General Fund.
- Payments for accumulated vacations benefits are typically liquidated in the fund for which the employee worked.
- Payments for the OPEB obligation are typically liquidated in the fund for which the employee worked.

MORONGO UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

General Obligation Bonds

The general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds				Bonds
				Outstanding July 1, 2012	Issued	Accreted	Redeemed	Outstanding June 30, 2013
4/25/06	8/1/14	3.88-7.00%	\$ 10,000,000	\$ 8,005,000	\$ -	\$ -	\$ 7,695,000	\$ 310,000
6/12/08	8/1/38	4.00-5.25%	21,000,000	20,125,000	-	-	330,000	19,795,000
3/29/12	8/1/42	4.34-12.00%	17,503,998	17,278,454	-	605,466	-	17,883,920
11/29/12	8/1/30	2.00-5.00%	7,935,000	-	7,935,000	-	-	7,935,000
			<u>\$ 56,438,998</u>	<u>\$ 45,408,454</u>	<u>\$ 7,935,000</u>	<u>\$ 605,466</u>	<u>\$ 8,025,000</u>	<u>\$ 45,923,920</u>

2005 Election, Series A General Obligation Bonds

During April 2006, the Morongo Unified School District issued the 2005 Election, Series A General Obligation Bonds in the amount of \$10,000,000. The bonds contain an original issue premium of \$202,007. The bonds were issued to finance certain capital projects of the District. The bonds mature on August 1, 2014, and yield an interest rate of 3.88 to 7.0 percent. At June 30, 2013, the principal balance outstanding was \$310,000. Unamortized premium received on issuance amounted to \$16,160.

The bonds mature as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2014	\$ 140,000	\$ 27,650	\$ 167,650
2015	170,000	5,950	175,950
Total	<u>\$ 310,000</u>	<u>\$ 33,600</u>	<u>\$ 343,600</u>

2005 Election, Series B General Obligation Bonds

During June 2008, the Morongo Unified School District issued the 2005 Election, Series B General Obligation Bonds in the amount of \$21,000,000. The bonds were issued to finance certain capital projects of the District. The bonds mature on August 1, 2038, and yield an interest rate of 4.0 to 5.25 percent. At June 30, 2013, the principal balance outstanding was \$19,795,000.

MORONGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

The bonds mature as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2014	\$ 175,000	\$ 978,869	\$ 1,153,869
2015	185,000	971,669	1,156,669
2016	195,000	964,069	1,159,069
2017	205,000	956,069	1,161,069
2018	215,000	947,669	1,162,669
2019-2023	1,170,000	4,613,184	5,783,184
2024-2028	2,305,000	4,241,703	6,546,703
2029-2033	5,465,000	3,393,625	8,858,625
2034-2038	9,285,000	1,454,381	10,739,381
2039	595,000	15,619	610,619
Total	\$ 19,795,000	\$ 18,536,857	\$ 38,331,857

2005 Election, Series C General Obligation Bonds

In March 2012, the District issued \$7,370,000 in current interest bonds, \$5,079,668 in capital appreciation bonds, and \$5,054,330 in convertible capital appreciation bonds of the General Obligation Bonds, Election of 2005 Series C. The capital appreciation bonds and convertible capital appreciation bonds accrete interest to a maturity value of \$10,940,332 and \$5,225,670 respectively. The bonds mature on August 1, 2039, August 1, 2032, and August 1, 2042, respectively, with interest yields ranging from 4.34 to 12.00 percent. The proceeds from the sale of the bonds were used to defease a portion of the outstanding 2005 Series A and B bonds and payoff the assessment payable. At June 30, 2013, the principal balance outstanding was \$17,883,920.

The bonds mature as follows:

Fiscal Year	2005 Current Interest Bonds		Capital Appreciation Bonds	
	Principal	Interest	Principal	Future Interest Accretion
2014	\$ -	\$ 304,013	\$ -	\$ 352,438
2015	-	304,013	-	379,580
2016	-	304,013	35,188	404,680
2017	-	304,013	66,115	426,323
2018	-	304,013	92,910	443,492
2019-2023	-	1,520,063	730,856	2,190,766
2024-2028	-	1,520,063	928,276	2,097,955
2029-2033	-	1,520,063	1,137,414	2,487,453
2034-2038	-	1,520,063	1,998,999	1,974,691
2039-2043	7,370,000	1,129,425	191,844	81,020
Total	\$ 7,370,000	\$ 8,729,742	\$ 5,181,602	\$ 10,838,398

MORONGO UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

Convertible Capital Appreciation Bonds			Total Principal and Interest		
Principal	Future Interest		Principal	Future Interest	
	Accretion	Interest		Accretion	Interest
\$ -	\$ 293,277	\$ -	\$ -	\$ 645,715	\$ 304,013
-	309,408	-	-	688,988	304,013
-	326,425	-	35,188	731,105	304,013
-	344,379	-	66,115	770,702	304,013
-	363,319	-	92,910	806,811	304,013
-	2,139,243	-	730,856	4,330,009	1,520,063
5,332,318	1,171,631	1,696,200	6,260,594	3,269,586	3,216,263
-	-	2,827,000	1,137,414	2,487,453	4,347,063
-	-	2,827,000	1,998,999	1,974,691	4,347,063
-	-	1,109,900	7,561,844	81,020	2,239,325
<u>\$ 5,332,318</u>	<u>\$ 4,947,682</u>	<u>\$ 8,460,100</u>	<u>\$ 17,883,920</u>	<u>\$ 15,786,080</u>	<u>\$ 17,189,842</u>

2012 General Obligation Refunding Bonds

On November 29, 2012, the District issued \$7,935,000 in General Obligation Refunding Bonds to advance refund \$7,580,000 of outstanding 2005 Series A bonds. The net proceeds of \$8,191,878 (after payment of \$197,479 in underwriting fees, insurance, and other issuance costs) were deposited in an irrevocable trust with an escrow agent to pay interest on the refunded bonds to and including August 1, 2014 (the "Redemption Date"), on which date the refunded bonds will be redeemed at the redemption price for all future debt service payments. As a result, this portion of the 2005 Series A Series bonds are considered to be defeased and the liability for those bonds has been removed from the Districts long term obligations. The bonds mature on August 1, 2030, with interest rates ranging from 2.00 to 5.00 percent. At June 30, 2013, the principal balance outstanding was \$7,935,000.

The bonds mature as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2014	\$ 150,000	\$ 246,125	\$ 396,125
2015	55,000	245,300	300,300
2016	250,000	240,725	490,725
2017	275,000	232,850	507,850
2018	305,000	225,675	530,675
2019-2023	2,025,000	984,875	3,009,875
2024-2028	3,135,000	543,650	3,678,650
2029-2031	1,740,000	57,600	1,797,600
Total	<u>\$ 7,935,000</u>	<u>\$ 2,776,800</u>	<u>\$ 10,711,800</u>

MORONGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

Supplemental Early Retirement Program

The District offered an early retirement incentive to qualified employees during the year. Each retiree receives an annual benefit payment amount predetermined by the retiree. Currently, there are 72 employees participating in this plan, and the District's obligation to those retirees as of June 30, 2013, is \$2,286,575.

Future payments are as follows:

Year Ending June 30,	Amount
2014	\$ 571,644
2015	571,644
2016	571,644
2017	571,643
Total	<u>\$ 2,286,575</u>

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2013, amounted to \$335,041.

Other Postemployment Benefits (OPEB) Obligation

The District's annual required contribution for the year ended June 30, 2013, was \$153,166, and contributions made by the District during the year were \$129,401. Interest on the net OPEB obligation and adjustments to the annual required contribution were \$5,412 and \$(5,271), respectively, which resulted in an increase to the net OPEB obligation of \$23,906. As of June 30, 2013, the net OPEB obligation was \$132,152. See Note 11 for additional information regarding the OPEB obligation and the postemployment benefits plan.

MORONGO UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 9 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Building Fund	Capital Facilities Fund	County School Facilities Fund
Nonspendable				
Revolving cash	\$ 35,000	\$ -	\$ -	\$ -
Stores inventories	26,477	-	-	-
Prepaid expenditures	3,416	-	-	-
Total Nonspendable	<u>64,893</u>	<u>-</u>	<u>-</u>	<u>-</u>
Restricted				
Legally restricted programs	2,505,371	-	-	-
Capital projects	-	11,183,148	11,514,688	3,503,560
Debt services	-	-	-	-
Total Restricted	<u>2,505,371</u>	<u>11,183,148</u>	<u>11,514,688</u>	<u>3,503,560</u>
Committed				
Deferred maintenance program	-	-	-	-
Assigned				
Health and welfare set aside	631,790	-	-	-
Flex programs, site, and department carryover	3,839,264	-	-	-
Program contingency	240,000	-	-	-
Other resources carryover	4,932,276	-	-	-
Other assignments	350,130	-	-	-
Total Assigned	<u>9,993,460</u>	<u>-</u>	<u>-</u>	<u>-</u>
Unassigned				
Economic uncertainties	2,103,620	-	-	-
Remaining unassigned	8,301,629	-	-	-
Total Unassigned	<u>10,405,249</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 22,968,973</u>	<u>\$ 11,183,148</u>	<u>\$ 11,514,688</u>	<u>\$ 3,503,560</u>

Non-Major Governmental		
Funds		Total
\$ 50		\$ 35,050
89,929		116,406
-		3,416
<u>89,979</u>		<u>154,872</u>
146,520		2,651,891
-		26,201,396
<u>2,224,768</u>		<u>2,224,768</u>
<u>2,371,288</u>		<u>31,078,055</u>
<u>911,218</u>		<u>911,218</u>
-		631,790
-		3,839,264
-		240,000
-		4,932,276
-		350,130
<u>-</u>		<u>9,993,460</u>
-		2,103,620
<u>-</u>		<u>8,301,629</u>
<u>-</u>		<u>10,405,249</u>
<u>\$ 3,372,485</u>		<u>\$ 52,542,854</u>

MORONGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

NOTE 10 - RISK FINANCING - CLAIMS

Description

The District risk financing activities for liability protection are recorded in the Internal Service Fund. The purpose of the fund is to administer the District's self-insured retention (deductible) portion of its liability insurance program.

The District participates in various public entity risk pools for health coverage and workers' compensation and property exposures (See Note 14 - Participation in Public Entity Risk Pools).

Significant losses are covered by commercial insurance purchased from an independent insurance company and from the Schools Excess Liability Fund.

Claims Liabilities

The District records an estimated claims liability for liability claims filed against it. Claims liabilities are based on estimates of the ultimate cost of reported claims. An estimate for claims incurred, but not yet reported, which is deemed to be an immaterial amount has not been provided.

Unpaid Claims Liabilities

The fund 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 from July 1, 2011 to June 30, 2013:

Liability Balance, July 1, 2011	\$	-
Claims and changes in estimates		10,000
Claims payments		<u>(10,000)</u>
Liability Balance, June 30, 2012		-
Claims and changes in estimates		-
Claims payments		-
Liability Balance, June 30, 2013	\$	<u><u>-</u></u>
Assets available to pay claims at June 30, 2013	\$	<u><u>805,912</u></u>

MORONGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

NOTE 11 - POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION

Plan Description

The District does not provide a retiree benefit plan. However, because retiree contributions are based on average rates that include active employees, GASB Statement No. 45 requires that a valuation be done to reflect the implicit rate subsidy - i.e. the difference between the cost of retiree benefits and the rates charged retirees. There are currently 67 retirees receiving an implicit subsidy benefit through the District's benefits plan.

Contribution Information

The contribution requirements of retirees and the District are established and may be amended by the District and the Morongo Teachers Association (MTA), the local California Service Employees Association (CSEA), and unrepresented groups. The required contribution is based on projected "pay-as-you-go" financing requirements. For fiscal year 2012-2013, the actuarially determined amount contributed by the District as an implicit rate subsidy to current retirees was \$129,401.

Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL) (or funding excess) over a period not to exceed 30 years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to the plan:

Annual required contribution	\$ 153,166
Interest on net OPEB obligation	5,412
Adjustment to annual required contribution	(5,271)
Annual OPEB cost (expense)	<u>153,307</u>
Contributions made	<u>(129,401)</u>
Increase in net OPEB obligation	23,906
Net OPEB obligation, beginning of year	108,246
Net OPEB obligation, end of year	<u><u>\$ 132,152</u></u>

MORONGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

Trend Information

Trend information for annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation is as follows:

Fiscal Year	Annual OPEB Cost	Actual Contribution	Percentage Contributed	Net OPEB Obligation
2011	\$ 130,912	\$ 105,708	81%	\$ 91,978
2012	130,531	114,787	88%	108,246
2013	153,307	129,401	84%	132,152

Funded Status and Funding Progress

A schedule of funding progress as of the most recent actuarial valuation is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age Normal (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b - a) / c]
January 1, 2013	\$ -	\$ 1,274,938	\$ 1,274,938	0%	\$ 42,897,852	3%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, investment returns, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

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

MORONGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

In the January 1, 2013, actuarial valuation, the entry age normal cost method was used. The actuarial assumptions included a five percent investment rate of return (net of administrative expenses), based on the plan being funded in an irrevocable employee benefit trust invested in a combined equity and fixed income portfolio. Healthcare cost trend rates used was five percent up to an increase of seven percent. The cost trend rate used for the Dental and Vision programs was four percent. The UAAL is being amortized at a level dollar method. The remaining amortization period at June 30, 2013, was 26 years. The actuarial value of assets was not determined in this actuarial valuation.

NOTE 12 - EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer retirement 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).

CalSTRS

Plan Description

The District contributes to CalSTRS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 100 Waterfront Place, West Sacramento, California 95605.

Funding Policy

Active plan members are required to contribute 8.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2012-2013 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalSTRS for the fiscal years ending June 30, 2013, 2012, and 2011, were \$2,665,120, \$2,759,795, and \$2,712,933, respectively, and equal 100 percent of the required contributions for each year.

MORONGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

CalPERS

Plan Description

The District contributes to the School Employer Pool under CalPERS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Laws. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95811.

Funding Policy

Active plan members are required to contribute 7.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2012-2013 was 11.417 percent of covered payroll. The contribution requirements of the plan members are established by State statute. In addition, the District contributes a 2.3 percent buyout on behalf of its classified bargaining unit employees. The District's contributions to CalPERS for the fiscal years ending June 30, 2013, 2012, and 2011, were \$973,065, \$979,325, and \$957,263, respectively, and equal 100 percent of the required contributions for each year.

Public Agency Retirement System

The District also contributes to the Public Agency Retirement System (PARS), which is a defined contribution pension plan. A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participants' benefits that may be allocated to such participant's account. As established by Federal law, all public sector employees who are not members of their employee's existing retirement system (CalSTRS or CalPERS) must be covered by social security or an alternative plan. The District has elected to use PARS as its alternative plan. Contributions made by the District and an employee vest immediately. The District contributes 6.05 percent for its classified bargaining unit employees and 3.75 percent of all other employee's gross earnings. Classified employees are required to contribute 1.45 percent, while all other employees must contribute 3.75 percent of their gross earnings to the pension plan. During the year, the District's required and actual contributions amounted to \$170,540.

MORONGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

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 \$1,716,534 (5.176 percent of the Districts 2010-2011 creditable compensation subject to STRS). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves, and have not been included in the budget amounts reported in the *General Fund - Budgetary Comparison Schedule*.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

Grants

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2013.

Litigation

The District is not currently a party to any legal proceedings.

Construction Commitments

As of June 30, 2013, the District had the following commitments with respect to the unfinished capital projects:

Capital Projects	Remaining Construction Commitment	Expected Date of Completion
Twentynine Palms High School Modernization	\$ 3,225,315	November 2013
Palm Vista Elementary Modernization	1,937,228	August 2013
Yucca Valley High School Modernization	5,333,697	September 2014
	<u>\$ 10,496,240</u>	

MORONGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

NOTE 14 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS

The District is a member of the Hi Desert and Inland Employee and Employer Trust (HDIEET), Southern California Schools Employee Benefit Association (SCSEBA), Schools Excess Liability Fund (SELF), and Southern California Schools Risk Management (SCSRM) public entity risk pools. The District pays an annual premium to each entity for its health, vision and dental, excess liability, and workers' compensation coverage. The relationships between the District and the JPAs are such that the JPAs 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 generally available from the respective entities.

During the year ended June 30, 2013, the District made payments of \$9,378,050, \$269,821, and \$1,126,182, to HDIEET/SCSEBA, SELF, and SCSRM, respectively.

REQUIRED SUPPLEMENTARY INFORMATION

MORONGO UNIFIED SCHOOL DISTRICT

**GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Budgeted Amounts</u>		<u>Actual (GAAP Basis)</u>	<u>Variances - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		<u>Final to Actual</u>
REVENUES				
Revenue limit sources	\$ 41,136,385	\$ 43,329,159	\$ 44,304,097	\$ 974,938
Federal sources	8,383,946	11,176,323	9,680,535	(1,495,788)
Other State sources	14,882,519	15,434,278	17,069,070	1,634,792
Other local sources	618,728	887,590	1,104,614	217,024
Total Revenues ¹	<u>65,021,578</u>	<u>70,827,350</u>	<u>72,158,316</u>	<u>1,330,966</u>
EXPENDITURES				
Current				
Certificated salaries	31,651,202	32,841,750	32,751,398	90,352
Classified salaries	10,262,083	10,186,614	10,184,262	2,352
Employee benefits	13,498,355	13,611,604	15,229,671	(1,618,067)
Books and supplies	3,974,436	4,880,514	2,920,697	1,959,817
Services and operating expenditures	10,470,007	12,732,810	10,569,548	2,163,262
Other outgo	119,766	210,509	179,811	30,698
Debt service				
Principal	37,851	38,851	-	38,851
Interest	14,474	14,474	-	14,474
Total Expenditures ¹	<u>70,028,174</u>	<u>74,517,126</u>	<u>71,835,387</u>	<u>2,681,739</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(5,006,596)</u>	<u>(3,689,776)</u>	<u>322,929</u>	<u>4,012,705</u>
NET CHANGE IN FUND BALANCE	<u>(5,006,596)</u>	<u>(3,689,776)</u>	<u>322,929</u>	<u>4,012,705</u>
Fund Balance - Beginning	<u>22,646,044</u>	<u>22,646,044</u>	<u>22,646,044</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 17,639,448</u>	<u>\$ 18,956,268</u>	<u>\$ 22,968,973</u>	<u>\$ 4,012,705</u>

¹ On behalf payments of \$1,716,534 are included in the actual revenues and expenditures, but have not been included in the budgeted amounts.

MORONGO UNIFIED SCHOOL DISTRICT

**SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING
PROGRESS
FOR THE YEAR ENDED JUNE 30, 2013**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age Normal (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
July 1, 2008	\$ -	\$ 1,254,251	\$ 1,254,251	0%	\$ 44,461,220	3%
January 1, 2013	-	1,274,938	1,274,938	0%	42,897,852	3%

SUPPLEMENTARY INFORMATION

MORONGO UNIFIED SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013**

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
U.S. DEPARTMENT OF EDUCATION			
Federal Impact Aid (ESEA, Title VIII)	84.041	10015	\$ 2,723,603
Passed through California Department of Education (CDE):			
Carl D. Perkins Vocational and Technical Education Act of 1998 Secondary Education (Section 131)	84.048	14894	53,256
No Child Left Behind Act (NCLB)			
Title II, Part A, Improving Teacher Quality Local Grants	84.367	14341	724,001
Title I, Part A Cluster			
Title I, Part A, Basic Grants Low Income and Neglected - Reallocation Funds	84.010	14329	2,804,721
Title I, Part A, Program Improvement LEA Corrective Action, Minor Performance Problems	84.010	14955	<u>282,940</u>
Total Title I, Part A Cluster			<u>3,087,661</u>
Title III, Limited English Proficient (LEP) Student Program	84.365	14346	<u>25,140</u>
Passed through San Bernardino County Special Education Local Plan Area:			
Individuals with Disabilities Act (IDEA)			
Special Education (IDEA) Cluster:			
Basic Local Assistance Entitlement, Part B, Section 611	84.027	13379	1,702,592
Preschool Grants, Part B, Section 619 (Age 3-4-5)	84.173	13430	55,941
Preschool Local Entitlement, Part B, Section 611 (Age 3-4-5)	84.027A	13682	128,019
Mental Health Allocation Plan, Part B, Section 611	84.027	14468	<u>124,645</u>
Total Special Education (IDEA) Cluster			<u>2,011,197</u>
Early Intervention Grants, Part C	84.181	23761	<u>51,238</u>
Passed through California Department of Rehabilitation			
Workability II, Transitions Partnership	84.158	10006	<u>153,034</u>
Total U.S. Department of Education			<u>8,829,130</u>

See accompanying note to supplementary information.

MORONGO UNIFIED SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2013**

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Entity Identifying Number	Program Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
Passed through California Department of Education (CDE):			
Child Nutrition Cluster:			
Especially Needy Breakfast	10.553	13526	\$ 518,901
National School Lunch Program	10.555	13524	2,013,296
Meal Supplement	10.555	13396	48,785
Summer Food Service Program	10.559	13004	50,522
Food Distribution	10.555	13524	<u>241,720</u>
Total U.S. Department of Agriculture			<u>2,873,224</u>
U.S. DEPARTMENT OF DEFENSE			
Department of Defense Education Activity	12.030	[1]	<u>612,420</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through California Department of Health Services:			
Medicaid Cluster:			
Medi-Cal Billing Option	93.778	10013	187,361
Medical Administrative Activities Program	93.778	10060	<u>29,300</u>
Total Medicaid Cluster			<u>216,661</u>
Total U.S. Department of Health and Human Services			<u>216,661</u>
Total Federal Programs			<u>\$ 12,531,435</u>

[1] Direct-funded; no PCA number

See accompanying note to supplementary information.

MORONGO UNIFIED SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2013

ORGANIZATION

The Morongo Unified School District was established in 1958, and consists of an area comprising approximately 1,358 square miles. The District operates eleven elementary schools, two middle schools, two comprehensive high schools, two continuation high schools, and an independent study program.

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Chris Proudfoot	President	2014
Karalee Hargrove	Clerk	2016
Donna Munoz	Member	2014
Ron Palmer	Member	2016
Ed Will	Member	2016

ADMINISTRATION

Dr. Cecelia English	Superintendent
David Price	Assistant Superintendent, Business Services
Tom Baumgarten	Assistant Superintendent, Instructional Services
Doug Weller	Assistant Superintendent, Human Resources

See accompanying note to supplementary information.

MORONGO UNIFIED SCHOOL DISTRICT

SCHEDULE OF AVERAGE DAILY ATTENDANCE FOR THE YEAR ENDED JUNE 30, 2013

	Final Report	
	Second Period Report	Annual Report
ELEMENTARY		
Kindergarten	727	728
First through third	2,016	2,000
Fourth through sixth	1,783	1,777
Seventh and eighth	1,092	1,087
Home and hospital	2	3
Special education	246	254
Total Elementary	<u>5,866</u>	<u>5,849</u>
SECONDARY		
Regular classes	1,886	1,854
Continuation education	117	113
Home and hospital	2	2
Special education	136	133
Total Secondary	<u>2,141</u>	<u>2,102</u>
Total K-12	<u><u>8,007</u></u>	<u><u>7,951</u></u>

See accompanying note to supplementary information.

MORONGO UNIFIED SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME FOR THE YEAR ENDED JUNE 30, 2013

Grade Level	1982-83	Reduced	1986-87	Reduced	2012-13	Number of Days		Status
	Actual	1982-83	Minutes	1986-87		Actual	Traditional	
	Minutes	Actual	Requirement	Requirement	Minutes	Calendar	Calendar	
Kindergarten	31,500	30,625	36,000	35,000	36,120	180	N/A	Complied
Grades 1 - 3	47,780	46,453	50,400	49,000				
Grade 1					52,065	180	N/A	Complied
Grade 2					52,065	180	N/A	Complied
Grade 3					52,065	180	N/A	Complied
Grades 4 - 6	52,543	51,083	54,000	52,500				
Grade 4					54,585	180	N/A	Complied
Grade 5					54,585	180	N/A	Complied
Grade 6					54,585	180	N/A	Complied
Grades 7 - 8	52,543	51,083	54,000	52,500				
Grade 7					65,520	180	N/A	Complied
Grade 8					65,520	180	N/A	Complied
Grades 9 - 12	61,687	59,973	64,800	63,000				
Grade 9					64,884	180	N/A	Complied
Grade 10					64,884	180	N/A	Complied
Grade 11					64,884	180	N/A	Complied
Grade 12					64,884	180	N/A	Complied

See accompanying note to supplementary information.

MORONGO UNIFIED SCHOOL DISTRICT

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2013.

See accompanying note to supplementary information.

MORONGO UNIFIED SCHOOL DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2013

	(Budget) 2014 ¹	2013	2012	2011
GENERAL FUND				
Revenues and other sources	\$ 72,276,256	\$ 72,158,316	\$ 73,084,463	\$ 75,728,230
Expenditures	72,773,455	71,835,387	74,792,615	71,447,457
INCREASE (DECREASE) IN FUND BALANCE	\$ (497,199)	\$ 322,929	\$ (1,708,152)	\$ 4,280,773
ENDING FUND BALANCE	\$ 22,471,774	\$ 22,968,973	\$ 22,646,044	\$ 24,354,196
AVAILABLE RESERVES ²	\$ 4,762,659	\$ 10,405,249	\$ 13,505,366	\$ 16,577,021
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO ³	6.5%	14.8%	18.5%	23.7%
LONG-TERM OBLIGATIONS	N/A	\$49,124,292	\$48,837,797	\$29,222,035
K-12 AVERAGE DAILY ATTENDANCE AT P-2	7,900	8,007	8,266	8,570

The General Fund balance has decreased by \$1,385,223 over the past two years. The fiscal year 2013-2014 budget projects a further decrease of \$497,199 (2.16 percent). For a district this size, the State recommends available reserves of at least three percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in two of the past three years, but anticipates incurring an operating deficit during the 2013-2014 fiscal year. Total long-term obligations have increased by \$19,902,257 over the past two years.

Average daily attendance has decreased by 563 over the past two years. Additional decline of 107 ADA is anticipated during fiscal year 2013-2014.

¹ Budget 2014 is included for analytical purposes only and has not been subjected to audit.

² Available reserves consist of all unassigned fund balances including all amounts reserved for economic uncertainties contained with the General Fund.

³ On behalf payments of \$1,716,534, \$1,721,175, and \$1,415,079, has been excluded from the calculation of available reserves for the fiscal years ending June 30, 2013, 2012, and 2011, respectively.

See accompanying note to supplementary information.

MORONGO UNIFIED SCHOOL DISTRICT

**SCHEDULE OF CHARTER SCHOOLS
FOR THE YEAR ENDED JUNE 30, 2013**

<u>Name of Charter School</u>	<u>Included in Audit Report</u>
Hope Academy Charter School	No

See accompanying note to supplementary information.

MORONGO UNIFIED SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2013**

	Cafeteria Fund	Deferred Maintenance Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds
ASSETS				
Deposits and investments	\$ 272,004	\$ 910,533	\$ 2,224,768	\$ 3,407,305
Receivables	736,032	685	-	736,717
Stores inventories	89,929	-	-	89,929
Total Assets	\$ 1,097,965	\$ 911,218	\$ 2,224,768	\$ 4,233,951
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 3,193	\$ -	\$ -	\$ 3,193
Due to other funds	840,152	-	-	840,152
Deferred revenue	18,121	-	-	18,121
Total Liabilities	861,466	-	-	861,466
Fund Balances:				
Nonspendable	89,979	-	-	89,979
Restricted	146,520	-	2,224,768	2,371,288
Committed	-	911,218	-	911,218
Total Fund Balances	236,499	911,218	2,224,768	3,372,485
Total Liabilities and Fund Balances	\$ 1,097,965	\$ 911,218	\$ 2,224,768	\$ 4,233,951

See accompanying note to supplementary information.

MORONGO UNIFIED SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2013**

	Cafeteria Fund	Deferred Maintenance Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds
REVENUES				
Federal sources	\$ 2,873,224	\$ -	\$ -	\$ 2,873,224
Other State sources	216,403	-	36,029	252,432
Other local sources	696,472	3,908	2,027,654	2,728,034
Total Revenues	3,786,099	3,908	2,063,683	5,853,690
EXPENDITURES				
Current				
Pupil services:				
Food services	3,894,767	-	-	3,894,767
Administration:				
All other administration	86,450	-	-	86,450
Plant services	7,334	12,370	-	19,704
Debt service				
Principal	-	-	445,000	445,000
Interest and other	-	-	1,464,287	1,464,287
Total Expenditures	3,988,551	12,370	1,909,287	5,910,208
Excess (Deficiency) of Revenues Over Expenditures	(202,452)	(8,462)	154,396	(56,518)
OTHER FINANCING SOURCES (USES)				
Other sources	-	-	8,389,358	8,389,358
Other uses	-	-	(8,389,358)	(8,389,358)
Net Financing Sources (Uses)	-	-	-	-
NET CHANGE IN FUND BALANCES	(202,452)	(8,462)	154,396	(56,518)
Fund Balances - Beginning	438,951	919,680	2,070,372	3,429,003
Fund Balances - Ending	\$ 236,499	\$ 911,218	\$ 2,224,768	\$ 3,372,485

See accompanying note to supplementary information.

MORONGO UNIFIED SCHOOL DISTRICT

**NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2013**

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

The accompanying 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 United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

The following schedule provides 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 consist primarily of Medi-Cal Administrative Activities Program funds that have been recorded in the current period as revenues that have not been expended as of June 30, 2013. These unspent balances are reported as legally restricted ending balances within the General Fund.

	CFDA Number	Amount
Description:		
Total Federal Revenues From the Statement of Revenues, Expenditures, and Changes in Fund Balances:		\$ 12,553,759
Medi-Cal Administrative Activities Program	93.778	(22,324)
Total Schedule of Expenditures of Federal Awards		\$ 12,531,435

Subrecipients

Of the Federal expenditures presented in the schedule, the District provided Federal awards to subrecipients as follows:

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Amount Provided to Subrecipients
Title II, Part A - Improving Teacher Quality Local Grants	84.367	\$ 14,813

Local Education Agency Organization Structure

This schedule provides information about the District's boundaries and schools operated, members of the governing board, and members of the administration.

See accompanying note to supplementary information.

MORONGO UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2013

Schedule of Average Daily Attendance

Average daily attendance 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 received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of *Education Code* Sections 46200 through 46206.

Districts must maintain their instructional minutes at either the 1982-83 actual minutes or the 1986-87 requirements, whichever is greater, as required by *Education Code* Section 46201.

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 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.

Schedule of Charter Schools

This schedule lists all Charter Schools chartered by the District, and displays information for each Charter School on whether or not the Charter School is included in the District audit.

Non-Major Governmental Funds - Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances

The Non-Major Governmental Funds Combining Balance Sheet and Combining Statement of Revenues, Expenditures, and Changes in Fund Balances is included to provide information regarding the individual funds that have been included in the Non-Major Governmental Funds column on the Governmental Funds Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances.

See accompanying note to supplementary information.

INDEPENDENT AUDITORS' REPORTS



**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***

Governing Board
Morongo Unified School District
Twentynine Palms, 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 Morongo Unified School District (the District) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Morongo Unified School District's basic financial statements, and have issued our report thereon dated November 25, 2013.

Internal Control Over Financial Reporting

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

Vavrinek, Trine, Day & Co. LLP

Rancho Cucamonga, California
November 25, 2013



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

Governing Board
Morongo Unified School District
Twentynine Palms, California

Report on Compliance for Each Major Federal Program

We have audited Morongo Unified School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Morongo Unified School District's (the District) major Federal programs for the year ended June 30, 2013. Morongo Unified School District's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Morongo 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 Morongo 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 Morongo Unified School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Morongo 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, 2013.

Report on Internal Control Over Compliance

Management of Morongo 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 Morongo 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 OMB Circular A-133, 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 Morongo Unified School 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 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Vavrinek, Trine, Day & Co. LLP

Rancho Cucamonga, California
November 25, 2013



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Governing Board
Morongo Unified School District
Twentynine Palms, California

Report on State Compliance

We have audited Morongo Unified School District's compliance with the types of compliance requirements as identified in the *Standards and Procedures for Audit of California K-12 Local Educational Agencies 2012-2013* that could have a direct and material effect on each of the Morongo Unified School District's State government programs as noted below for the year ended June 30, 2013.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the Morongo Unified School District's State programs based on our audit of the types of compliance requirements referred to above. 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 *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2012-2013*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about Morongo 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. Our audit does not provide a legal determination of Morongo Unified School District's compliance with those requirements.

Unmodified Opinion on Each of the Programs

In our opinion, Morongo Unified School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2013.

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

	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Attendance Accounting:		
Attendance Reporting	6	Yes
Teacher Certification and Misassignments	3	Yes
Kindergarten Continuance	3	Yes
Independent Study	23	Yes
Continuation Education	10	Yes, See Below
Instructional Time:		
School Districts	6	Yes
County Offices of Education	3	Not Applicable
Instructional Materials:		
General Requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive	4	Not Applicable
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Juvenile Court Schools	8	Not Applicable
Class Size Reduction Program (including in charter schools):		
General Requirements	7	Yes
Option One Classes	3	Yes
Option Two Classes	4	Not Applicable
Districts or Charter Schools With Only One School Serving K-3	4	Not Applicable
After School Education and Safety Program:		
General Requirements	4	Yes
After School	5	Yes
Before School	6	Not Applicable
Charter Schools:		
Contemporaneous Records of Attendance	1	Not Applicable
Mode of Instruction	1	Not Applicable
Non Classroom-Based Instruction/Independent Study	15	Not Applicable
Determination of Funding for Non Classroom-Based Instruction	3	Not Applicable
Annual Instruction Minutes Classroom-Based	4	Not Applicable

We did not perform procedures specific to the work experience program, as the District does not operate this program.

Vavrinek, Trine, Day & Co. LLP

Rancho Cucamonga, California
November 25, 2013

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MORONGO UNIFIED SCHOOL DISTRICT

**SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2013**

FINANCIAL STATEMENTS

Type of auditors' report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major programs:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<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 Section .510(a) of OMB Circular A-133?	<u>No</u>

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>84.010</u>	<u>Title I, Part A Cluster</u>
<u>84.027, 84.027A, 84.173</u>	<u>Special Education (IDEA) Cluster</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 375,943</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

STATE AWARDS

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

MORONGO UNIFIED SCHOOL DISTRICT

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013**

None reported.

MORONGO UNIFIED SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013**

None reported.

MORONGO UNIFIED SCHOOL DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013**

None reported.

MORONGO UNIFIED SCHOOL DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013**

There were no findings reported in the prior year's schedule of financial statement findings.