

MORONGO UNIFIED SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

JUNE 30, 2015

MORONGO UNIFIED SCHOOL DISTRICT

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FINANCIAL SECTION

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, 2015, 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.

Emphasis of Matter - Change in Accounting Principles

As discussed in Notes 1 and 15 to the financial statements, in 2015, the District adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information, such as management's discussion and analysis on pages 5 through 13, and the budgetary comparison, other postemployment benefit, District's proportionate share of the net pension liability, and the District contributions on pages 67 through 70, respectively, 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 accompanying supplementary information such as the combining and individual nonmajor fund financial statements and 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* and the other supplementary information as listed on the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying supplementary information, including the Schedule of Expenditures of Federal Awards 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 accompanying supplementary information, including the Schedule of Expenditures of Federal Awards 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 December 14, 2015, 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
December 14, 2015



MORONGO

UNIFIED SCHOOL DISTRICT

Board of Education
Karalee Hargrove, President
Ron Palmer
Chris Proudfoot
Hilary Slotta
Ed Will

5715 Utah Trail (P.O. Box 1209), Twentynine Palms, CA 92277

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Tom Baumgarten
District Superintendent

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, 2015, with comparative information from 2014. 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, 2015

FINANCIAL HIGHLIGHTS OF THE PAST YEAR

- The District's government-wide Statement of Net Position shows total net position of \$5,379,259, the result of assets of \$126,936,726, plus the total Deferred Outflows of \$4,644,810, minus liabilities of \$112,361,015, and Deferred Inflows of \$13,841,262.
- General revenues accounted for \$68,466,318 in revenue or 79.1 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$18,127,111 or 20.9 percent of total revenues of \$86,593,429.
- The District had \$94,096,422 in expenses related to governmental activities; only \$18,127,111 of these expenses was offset by program specific charges for services, grants, or contributions. General revenues (primarily Local Control Funding Formula (LCFF) and property taxes) of \$68,466,318 were adequate to provide for these programs.
- The General Fund reported a positive fund balance of \$14,558,743.

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 deferred outflows of resources, and liabilities and deferred inflows of resources, which is 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, 2015

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, 2015

THE DISTRICT AS A WHOLE

Net Position

The District's net position was \$5,379,259 for the fiscal year ended June 30, 2015. Of this amount \$(50,853,932) 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	
	2015	As restated 2014
Assets		
Current and other assets	\$ 44,703,707	\$ 50,242,671
Capital assets	82,233,019	82,708,810
Total Assets	<u>126,936,726</u>	<u>132,951,481</u>
Deferred Outflows of Resources		
Net change in proportionate share of net pension liability	280,028	-
Current year pension contribution	4,364,782	3,716,361
Total Deferred Outflows of Resources	<u>4,644,810</u>	<u>3,716,361</u>
Liabilities		
Current liabilities	11,566,853	10,196,783
Long-term obligations	48,568,117	48,754,920
Aggregate Net Pension Liability	52,226,045	
Total Liabilities	<u>112,361,015</u>	<u>58,951,703</u>
Deferred Inflows of Resources		
Difference between projected and actual earnings on pension plan investments	13,841,262	64,833,887
Net Position		
Net investment in capital assets	40,605,507	43,230,310
Restricted	15,627,684	15,513,951
Unrestricted	(50,853,932)	(45,862,009)
Total Net Position	<u>\$ 5,379,259</u>	<u>\$ 12,882,252</u>

MORONGO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2015

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>2015</u>	<u>2014</u>
Revenues		
Program revenues:		
Charges for services	\$ 1,201,273	\$ 1,206,877
Operating grants and contributions	16,925,287	16,918,282
Capital grants and contributions	551	1,502,102
General revenues:		
Federal and State aid not restricted to specific purposes	58,923,864	51,262,605
Property taxes	7,533,238	7,873,320
Other general revenues	2,009,216	3,456,637
Total Revenues	<u>86,593,429</u>	<u>82,219,823</u>
Expenses		
Instruction-related	64,160,514	56,596,969
Other pupil services	11,420,834	11,437,625
Administration	5,680,334	4,975,512
Maintenance and operations	9,893,018	9,299,109
Other	2,941,722	2,741,481
Total Expenses	<u>94,096,422</u>	<u>85,050,696</u>
Change in Net Position	<u>\$ (7,502,993)</u>	<u>\$ (2,830,873)</u>

Governmental Activities

As reported in the *Statement of Activities*, the cost of all of our governmental activities this year was \$94,096,422. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$7,533,238 because the cost was paid by those who benefited from the programs (\$1,201,273) or by other governments and organizations who subsidized certain programs with grants and contributions \$16,925,838. We paid for the remaining "public benefit" portion of our governmental activities with \$60,933,080 in State funds and other revenues, like interest and general entitlements.

MORONGO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015

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	
	2015	2014
Instruction-related activities	\$ 52,305,933	\$ 43,210,904
Other pupil services	6,483,800	6,418,632
Administration	5,212,057	4,339,966
Maintenance and operations	9,872,147	9,270,862
Other activities	2,095,374	2,183,071
Total	\$ 75,969,311	\$ 65,423,435

THE DISTRICT FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$32,957,011 which is a decrease of \$6,794,276 over last year.

Table 4

	Balances and Activity			
	July 1, 2014	Revenues	Expenditures	June 30, 2015
General Fund	\$ 20,074,746	\$ 80,111,308	\$ 85,627,311	\$ 14,558,743
Cafeteria Fund	101,436	3,627,558	3,652,834	76,160
Deferred Maintenance Fund	912,250	3,592	5,131	910,711
Building Fund	4,395,691	15,042	2,013,682	2,397,051
Capital Facilities Fund	11,963,558	803,726	210,681	12,556,603
County School Facilities Fund	139,959	552	-	140,511
Bond Interest and Redemption Fund	2,163,647	2,092,466	1,938,881	2,317,232
Total	\$ 39,751,287	\$ 86,654,244	\$ 93,448,520	\$ 32,957,011

MORONGO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2015

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 \$859,355 more than expected and expenditures were \$2,761,552 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 67.)

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets (Net of Depreciation)

At the end of fiscal year of 2015, the District had \$82,233,019 invested in land, buildings, equipment, and construction in progress. Table 5 shows fiscal year 2014-2015 balances compared to fiscal year 2013-2014 balances.

Table 5

	Governmental Activities	
	2015	2014
Land	\$ 1,958,169	\$ 1,958,169
Construction in progress	14,623,141	34,861,345
Buildings and improvements	63,020,225	42,721,886
Furniture and equipment	2,631,484	3,167,410
Total	\$ 82,233,019	\$ 82,708,810

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, 2015

Long-Term Obligations

At the end of this year, the District had \$46,383,623 of general obligation bonds payable, \$382,616 of premium on issuance, \$1,143,285 in supplemental early retirement program payable, \$422,276 in compensated absences payable, and \$236,317 in net OPEB obligation. We present more detailed information regarding our long-term obligations in Note 8 of the financial statements.

Net Pension Liability (NPL)

At year-end, the District had a pension liability of \$52,226,045, as a result of the adoption of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. The District therefore recorded its proportionate share of net pension liabilities for CalSTRS and CalPERS.

SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2014-2015 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:

- Sandi Pearce
- Marilyn Waters
- Valerie Paulus

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

In considering the District Budget for the 2015-2016 school year, the District Board and management used the following criteria:

The key assumptions in our revenue forecast are:

1. LCFF includes a 1.02 percent Cost of Living Adjustment (COLA) projection with a 51.52 GAP funding percentage.

MORONGO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2015

Expenditures are based on the following forecasts:

	<u>Staffing Ratio</u>	<u>Enrollment</u>
Grades kindergarten through three	23:1	2,860
Grades four through six	25:1	1,898
Grades seven through eight	26:1	1,138
Grades nine through twelve	27:1	1,943

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

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

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 Sharon Flores, Assistant Superintendent-Business Services, Morongo Unified School District, 5715 Utah Trail, P.O. Box 1209, Twentynine Palms, California 92277 or sharon_flores@morongo.k12.ca.us.

MORONGO UNIFIED SCHOOL DISTRICT

STATEMENT OF NET POSITION JUNE 30, 2015

	Governmental Activities
ASSETS	
Deposits and investments	\$ 39,792,584
Receivables	4,814,155
Prepaid expenditures	8,524
Stores inventories	88,444
Capital assets	
Land and construction in progress	16,581,310
Other capital assets	117,314,901
Less: accumulated depreciation	(51,663,192)
Total Capital Assets, Net of Accumulated Depreciation	<u>82,233,019</u>
Total Assets	<u>126,936,726</u>
DEFERRED OUTFLOWS OF RESOURCES	
Net change in proportionate share of net pension liability	280,028
Current year pension contribution	4,364,782
Total Deferred Outflows of Resources	<u>4,644,810</u>
LIABILITIES	
Accounts payable	10,900,557
Interest payable	631,857
Unearned revenue	34,439
Long-term obligations	
Current portion of long-term obligations other than pensions	1,060,784
Noncurrent portion of long-term obligations other than pensions	47,507,333
Total Long-Term Obligations	<u>48,568,117</u>
Aggregate net pension liability	52,226,045
Total Liabilities	<u>112,361,015</u>
DEFERRED INFLOWS OF RESOURCES	
Difference between projected and actual earnings on pension plan investments	<u>13,841,262</u>
NET POSITION	
Net investment in capital assets	40,605,507
Restricted for:	
Debt service	1,685,375
Capital projects	12,026,410
Educational programs	1,839,739
Other activities	76,160
Unrestricted	(50,853,932)
Total Net Position	<u>\$ 5,379,259</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, 2015

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					Governmental Activities
Instruction	\$ 55,366,670	\$ 122,518	\$ 10,377,492	\$ 551	\$ (44,866,109)
Instruction-related activities:					
Supervision of instruction	2,404,797	104	1,163,957	-	(1,240,736)
Instructional library, media and technology	819,752	-	59,140	-	(760,612)
School site administration	5,569,295	-	130,819	-	(5,438,476)
Pupil services:					
Home-to-school transportation	3,011,623	-	-	-	(3,011,623)
Food services	3,734,606	560,470	2,871,153	-	(302,983)
All other pupil services	4,674,605	-	1,505,411	-	(3,169,194)
Administration:					
Data processing	1,402,325	1,710	5,997	-	(1,394,618)
All other administration	4,278,009	366	460,204	-	(3,817,439)
Plant services	9,893,018	9,711	11,160	-	(9,872,147)
Ancillary services	394,274	-	10,021	-	(384,253)
Community services	142,605	-	44,000	-	(98,605)
Interest on long-term obligations	2,307,054	-	-	-	(2,307,054)
Other outgo	97,789	506,394	285,933	-	694,538
Total Governmental Activities	\$ 94,096,422	\$ 1,201,273	\$ 16,925,287	\$ 551	(75,969,311)
General revenues and subventions:					
Property taxes, levied for general purposes					4,882,337
Property taxes, levied for debt service					2,048,661
Taxes levied for other specific purposes					602,240
Federal and State aid not restricted to specific purposes					58,923,864
Interest and investment earnings					92,159
Interagency revenues					61,265
Miscellaneous					1,855,792
Subtotal, General Revenues					68,466,318
Change in Net Position					(7,502,993)
Net Position - Beginning					73,999,778
Prior Period Adjustment					(61,117,526)
Net Assets Beginning, as Restated					12,882,252
Net Position - Ending					\$ 5,379,259

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

MORONGO UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2015

	General Fund	Capital Facilities Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS				
Deposits and investments	\$ 19,812,739	\$ 12,361,730	\$ 6,807,139	\$ 38,981,608
Receivables	4,328,821	16,847	467,763	4,813,431
Due from other funds	818,587	255,741	64,000	1,138,328
Prepaid expenditures	8,524	-	-	8,524
Stores inventories	12,674	-	75,770	88,444
Total Assets	\$ 24,981,345	\$ 12,634,318	\$ 7,414,672	\$ 45,030,335
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 10,102,861	\$ 77,715	\$ 719,981	\$ 10,900,557
Due to other funds	319,741	-	818,587	1,138,328
Unearned revenue	-	-	34,439	34,439
Total Liabilities	10,422,602	77,715	1,573,007	12,073,324
Fund Balances:				
Nonspendable	56,198	-	75,840	132,038
Restricted	1,839,739	12,556,603	4,855,114	19,251,456
Committed	-	-	910,711	910,711
Assigned	3,243,811	-	-	3,243,811
Unassigned	9,418,995	-	-	9,418,995
Total Fund Balances	14,558,743	12,556,603	5,841,665	32,957,011
Total Liabilities and Fund Balances	\$ 24,981,345	\$ 12,634,318	\$ 7,414,672	\$ 45,030,335

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

MORONGO UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION JUNE 30, 2015

Total Fund Balance - Governmental Funds		\$ 32,957,011
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	\$ 133,896,211	
Accumulated depreciation is the following	<u>(51,663,192)</u>	
Net Capital Assets		82,233,019
Expenditures relating to contributions made to pension plans were recognized on the modified accrual basis, but are not recognized on the accrual basis.		4,364,782
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.		(631,857)
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:		811,700
The net change in proportionate share of net pension liability as of the measurement date is not recognized as an expenditure under the modified accrual basis, but is recognized on the accrual basis over the expected remaining service life of members receiving pension benefits.		280,028
The difference between projected and actual earnings on pension plan investments are not recognized on the modified accrual basis, but are recognized on the accrual basis as an adjustment to pension expense.		(13,841,262)
Net pension liability is not due and payable in the current period, and is not reported as a liability in the funds.		(52,226,045)
Long-term obligations at year-end consist of the following:		
General obligation bonds	44,312,651	
Unamortized premium amount on issuance	382,616	
Supplemental early retirement program	1,143,285	
Compensated absences	422,276	
Net OPEB obligation	236,317	
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>2,070,972</u>	(48,568,117)
Total Net Position - Governmental Activities		<u>\$ 5,379,259</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, 2015

	<u>General Fund</u>	<u>Capital Facilities Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Local Control Funding Formula	\$ 59,642,943	\$ -	\$ -	\$ 59,642,943
Federal sources	9,268,647	-	2,753,871	12,022,518
Other State sources	9,387,963	-	255,412	9,643,375
Other local sources	1,811,755	803,726	2,665,927	5,281,408
Total Revenues	<u>80,111,308</u>	<u>803,726</u>	<u>5,675,210</u>	<u>86,590,244</u>
EXPENDITURES				
Current				
Instruction	53,089,402	-	-	53,089,402
Instruction-related activities:				
Supervision of instruction	2,403,923	-	-	2,403,923
Instructional library, media, and technology	787,812	-	-	787,812
School site administration	5,537,581	-	-	5,537,581
Pupil services:				
Home-to-school transportation	3,017,089	-	-	3,017,089
Food services	6,044	-	3,644,922	3,650,966
All other pupil services	4,693,252	-	-	4,693,252
Administration:				
Data processing	986,391	-	-	986,391
All other administration	4,167,320	1,225	-	4,168,545
Plant services	10,125,741	32,356	14,899	10,172,996
Facility acquisition and construction	115,805	177,100	2,011,826	2,304,731
Ancillary services	388,688	-	-	388,688
Community services	143,238	-	-	143,238
Other outgo	97,789	-	-	97,789
Debt service				
Principal	-	-	410,000	410,000
Interest and other	3,236	-	1,528,881	1,532,117
Total Expenditures	<u>85,563,311</u>	<u>210,681</u>	<u>7,610,528</u>	<u>93,384,520</u>
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	<u>(5,452,003)</u>	<u>593,045</u>	<u>(1,935,318)</u>	<u>(6,794,276)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	64,000	64,000
Transfers out	(64,000)	-	-	(64,000)
Net Financing Sources (Uses)	<u>(64,000)</u>	<u>-</u>	<u>64,000</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	(5,516,003)	593,045	(1,871,318)	(6,794,276)
Fund Balances - Beginning	20,074,746	11,963,558	7,712,983	39,751,287
Fund Balances - Ending	<u>\$ 14,558,743</u>	<u>\$ 12,556,603</u>	<u>\$ 5,841,665</u>	<u>\$ 32,957,011</u>

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 FOR THE YEAR ENDED JUNE 30, 2015

Total Net Change in Fund Balances - Governmental Funds **\$ (6,794,276)**
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:

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 depreciation exceed capital outlays in the period.

Capital outlays	\$ 2,484,102	
Depreciation expense	<u>(2,959,893)</u>	(475,791)

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 \$571,644. Vacation used was less than amounts earned by \$62,437. 509,207

In the governmental funds, pension costs are based on employer contributions made to pension plans during the year. However, in the Statement of Activities, pension expense is the net effect of all changes in he deferred outflows, deferred inflows and net pension liability during the year. (304,971)

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 \$75,410. (75,410)

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	410,000
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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, 2015

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 \$ 31,994

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 \$8,727, and second, \$806,931 of additional accumulated interest was accreted on the District's "capital appreciation" general obligation bonds. (806,931)

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. 3,185

Change in Net Position of Governmental Activities \$ (7,502,993)

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

MORONGO UNIFIED SCHOOL DISTRICT

**PROPRIETARY FUND
STATEMENT OF NET POSITION
JUNE 30, 2015**

	<u>Governmental Activities</u> <u>Internal Service Fund</u>
ASSETS	
Current Assets	
Deposits and investments	\$ 810,976
Receivables	724
Total Current Assets	<u>811,700</u>
 NET POSITION	
Unrestricted	<u>\$ 811,700</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, 2015**

	Governmental Activities Internal Service Fund
NON-OPERATING REVENUES	
Interest income	\$ 3,185
Change in Net Position	3,185
Total Net Position - Beginning	808,515
Total Net Position - Ending	<u>\$ 811,700</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, 2015**

	<u>Governmental Activities</u>
	<u>Internal Service Fund</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	\$ 3,165
Net Change in Cash and Cash Equivalents	3,165
Cash and Cash equivalents - Beginning	807,811
Cash and Cash Equivalents - Ending	<u>\$ 810,976</u>

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

MORONGO UNIFIED SCHOOL DISTRICT

FIDUCIARY FUNDS STATEMENT OF NET POSITION JUNE 30, 2015

	<u>Agency Funds</u>
ASSETS	
Deposits and investments	\$ 294,154
Stores inventories	18,404
Total Assets	<u><u>\$ 312,558</u></u>
 LIABILITIES	
Due to student groups	<u><u>\$ 312,558</u></u>

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

MORONGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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.

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, 2015

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.

Capital Project Funds The Capital Project funds are used to account for financial resources that are restricted, committed, or assigned to the acquisition or construction of major capital facilities and other capital assets (other than those financed by proprietary funds and trust funds).

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.

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.).

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.

MORONGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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.

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 position 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 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.

MORONGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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.

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.

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

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

MORONGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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.

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, 2015, 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.

MORONGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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.

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.

MORONGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

Debt 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 or proprietary fund statement of net position. Debt premiums and discounts, as well as issuance costs, related to prepaid insurance costs are amortized over the life of the bonds using the straight-line method.

In governmental fund financial statements, bond premiums and discounts, as well as debt issuance costs are recognized in the current period. The face amount of the debt is reported as other financing sources. Premiums received on debt issuance are also reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds, are reported as debt service expenditures.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position also reports deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The District reports deferred outflows of resources for the current year pension contributions and for the unamortized amount on net change in proportionate share of net pension liability.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The District reports deferred inflows of resources for the difference between projected and actual earnings on pension plan investments specific to the net pension liability.

Pensions

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

Fund Balances - Governmental Funds

As of June 30, 2015, 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.

MORONGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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 \$15,627,684 of restricted net position.

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.

MORONGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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.

Change in Accounting Principles

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB 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.

MORONGO UNIFIED SCHOOL DISTRICT

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JUNE 30, 2015

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.

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 non-employer 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, non-employer 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.

Note disclosure and required supplementary information requirements about pensions also are addressed. Distinctions are made regarding the particular requirements for employers based on the number of employers whose employees are provided with pensions through the pension plan and whether pension obligations and pension plan assets are shared. Employers are classified in one of the following categories for purposes of this Statement:

- Single employers are those whose employees are provided with defined benefit pensions through single-employer pension plans—pension plans in which pensions are provided to the employees of only one employer (as defined in this Statement).
- Agent employers are those whose employees are provided with defined benefit pensions through agent multiple-employer pension plans—pension plans in which plan assets are pooled for investment purposes but separate accounts are maintained for each individual employer so that each employer's share of the pooled assets is legally available to pay the benefits of only its employees.
- Cost-sharing employers are those whose employees are provided with defined benefit pensions through cost-sharing multiple-employer pension plans—pension plans in which the pension obligations to the employees of more than one employer are pooled and plan assets can be used to pay the benefits of the employees of any employer that provides pensions through the pension plan.

MORONGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

In addition, this Statement details the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. This Statement also addresses circumstances in which a non-employer entity has a legal requirement to make contributions directly to a pension plan.

The District has implemented the Provisions of this Statement for the year ended June 30, 2015.

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date — An Amendment of GASB Statement No. 68*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

Statement No. 68 requires a state or local government employer (or nonemployer contributing entity in a special funding situation) to recognize a net pension liability measured as of a date (the measurement date) no earlier than the end of its prior fiscal year. If a state or local government employer or nonemployer contributing entity makes a contribution to a defined benefit pension plan between the measurement date of the reported net pension liability and the end of the government's reporting period, Statement No. 68 requires that the government recognize its contribution as a deferred outflow of resources. In addition, Statement No. 68 requires recognition of deferred outflows of resources and deferred inflows of resources for changes in the net pension liability of a state or local government employer or nonemployer contributing entity that arise from other types of events. At transition to Statement No. 68, if it is not practical for an employer or nonemployer contributing entity to determine the amounts of *all* deferred outflows of resources and deferred inflows of resources related to pensions, paragraph 137 of Statement No. 68 required that beginning balances for deferred outflows of resources and deferred inflows of resources not be reported.

Consequently, if it is not practical to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions, contributions made after the measurement date of the beginning net pension liability could not have been reported as deferred outflows of resources at transition. This could have resulted in a significant understatement of an employer or nonemployer contributing entity's beginning net position and expense in the initial period of implementation.

This Statement amends paragraph 137 of Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement No. 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts.

The District has implemented the Provisions of this Statement for the year ended June 30, 2015.

As the result of implementing GASB Statement No. 68, the District has restated the beginning net position in the government wide Statement of Net Position, effectively decreasing net position as of July 1, 2014 by \$61,117,526. The decrease results from recognizing the net pension liability, net of related deferred outflows of resources. The restatement does not include deferred inflows of resources, as this information was not available.

MORONGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

New Accounting Pronouncements

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015. Early implementation is encouraged.

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That are not Within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement No. 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement No. 68 for pension plans and pensions that are within their respective scopes.

The requirements of this Statement extend the approach to accounting and financial reporting established in Statement No. 68 to all pensions, with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in Statement No. 68 should not be considered pension plan assets. It also requires that information similar to that required by Statement No. 68 be included in notes to financial statements and required supplementary information by all similarly situated employers and nonemployer contributing entities.

This Statement also clarifies the application of certain provisions of Statements No. 67 and No. 68 with regard to the following issues:

- Information that is required to be presented as notes to the ten-year schedules of required supplementary information about investment-related factors that significantly affect trends in the amounts reported.
- Accounting and financial reporting for separately financed specific liabilities of individual employers and nonemployer contributing entities for defined benefit pensions.
- Timing of employer recognition of revenue for the support of nonemployer contributing entities not in a special funding situation.

MORONGO UNIFIED SCHOOL DISTRICT

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JUNE 30, 2015

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2016. Early implementation is encouraged.

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement No. 43, and Statement No. 50, *Pension Disclosures*.

Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities.

The scope of this Statement includes OPEB plans—defined benefit and defined contribution—administered through trusts that meet the following criteria:

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

This Statement also includes requirements to address financial reporting for assets accumulated for purposes of providing defined benefit OPEB through OPEB plans that are not administered through trusts that meet the specified criteria.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2016. Early implementation is encouraged.

MORONGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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

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

The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to 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. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. This Statement also addresses certain circumstances in which a nonemployer entity provides financial support for OPEB of employees of another entity.

In this Statement, distinctions are made regarding the particular requirements depending upon whether the OPEB plans through which the benefits are provided are administered through trusts that meet the following criteria:

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

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2017. Early implementation is encouraged.

MORONGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively. Earlier implementation is permitted.

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2015, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 39,792,584
Fiduciary funds	294,154
Total Deposits and Investments	<u>\$ 40,086,738</u>

Deposits and investments as of June 30, 2015, consist of the following:

Cash on hand and in banks	\$ 665,953
Cash in revolving	35,070
Investments	39,385,715
Total Deposits and Investments	<u>\$ 40,086,738</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.

MORONGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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.

General Authorizations

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

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
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 does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District manages its exposure to interest rate risk by investing in the San Bernardino County Investment 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, 2015

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:

Investment Type	Fair Value	Weighted-Average Days to Maturity
San Bernardino County Investment Pool	\$ 39,386,129	344*

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.

Investment Type	Minimum Legal Rating	Rating June 30, 2015	Fair Value
San Bernardino County Investment Pool	Not Required	AAA/V1	\$ 39,386,129

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, 2015, the District's bank balance was fully insured.

MORONGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 3 - RECEIVABLES

Receivables at June 30, 2015, consisted of intergovernmental grants, entitlements, interest, and other local sources. All receivables are considered collectible in full.

	General Fund	Capital Facilities Fund	Non-Major Governmental Funds	Internal Service Fund	Total Governmental Activities
Federal Government					
Categorical aid	\$ 2,380,606	\$ -	\$ 413,553	\$ -	\$ 2,794,159
State Government					
Categorical aid	179,340	-	33,113	-	212,453
Lottery	738,694	-	-	-	738,694
Local Government					
Interest	-	-	-	724	724
Other Local Sources	1,030,181	16,847	21,097	-	1,068,125
Total	<u>\$ 4,328,821</u>	<u>\$ 16,847</u>	<u>\$ 467,763</u>	<u>\$ 724</u>	<u>\$ 4,814,155</u>

MORONGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2015, was as follows:

	Balance July 1, 2014	Additions	Deductions	Balance June 30, 2015
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 1,958,169	\$ -	\$ -	\$ 1,958,169
Construction in process	34,861,345	2,198,285	22,436,489	14,623,141
Total Capital Assets Not Being Depreciated	<u>36,819,514</u>	<u>2,198,285</u>	<u>22,436,489</u>	<u>16,581,310</u>
Capital Assets Being Depreciated				
Land improvements	15,945,255	583,215	-	16,528,470
Buildings and improvements	68,100,989	21,937,824	-	90,038,813
Furniture and equipment	10,546,351	201,267	-	10,747,618
Total Capital Assets Being Depreciated	<u>94,592,595</u>	<u>22,722,306</u>	<u>-</u>	<u>117,314,901</u>
Less Accumulated Depreciation				
Land improvements	9,542,556	299,072	-	9,841,628
Buildings and improvements	31,781,802	1,923,628	-	33,705,430
Furniture and equipment	7,378,941	737,193	-	8,116,134
Total Accumulated Depreciation	<u>48,703,299</u>	<u>2,959,893</u>	<u>-</u>	<u>51,663,192</u>
Governmental Activities Capital Assets, Net	<u>\$ 82,708,810</u>	<u>\$ 21,960,698</u>	<u>\$ 22,436,489</u>	<u>\$ 82,233,019</u>

Depreciation expense was charged to governmental functions as follows:

Governmental Activities	
Instruction	\$ 2,145,826
Supervision of instruction	10,382
Instructional library, media, and technology	39,971
School site administration	79,883
Home-to-school transportation	2,158
Food services	115,310
Ancillary services	5,019
All other pupil services	187
Other general administration	84,546
Data processing	424,199
Plant services	52,412
Total Depreciation Expenses Governmental Activities	<u>\$ 2,959,893</u>

MORONGO UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

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, 2015, between major and non-major governmental funds, non-major enterprise funds, internal service funds, and fiduciary funds are as follows:

<u>Due To</u>	<u>Due From</u>		<u>Total</u>
	<u>General Fund</u>	<u>Non-Major Governmental Funds</u>	
General Fund	\$ -	\$ 818,587	\$ 818,587
Capital Facilities Fund	255,741	-	255,741
Non-Major Governmental Funds	64,000	-	64,000
Total	<u>\$ 319,741</u>	<u>\$ 818,587</u>	<u>\$ 1,138,328</u>

The balance of \$818,587 is due to the General Fund from the Cafeteria Non-Major Governmental Fund for payroll and operating expenses.

The balance of \$255,741 is due to the Capital Facilities Fund from the General Fund for RDA pass-through.

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.

Operating Transfers

Interfund transfers for the year ended June 30, 2015, consisted of the following:

<u>Transfer To</u>	<u>Transfer From</u>
	<u>General Fund</u>
Cafeteria Fund	<u>\$ 64,000</u>
The General Fund transferred to the Cafeteria Fund to cover costs.	<u>\$ 64,000</u>

Interfund transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

MORONGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2015, consisted of the following:

	General Fund	Capital Facilities Fund	Non-Major Governmental Funds	Total Governmental Activities
Vendor payables	\$ 2,750,358	\$ 77,715	\$ 194,617	\$ 3,022,690
State principal apportionment	1,010,286	-	-	1,010,286
Salaries and benefits	6,342,217	-	-	6,342,217
Construction	-	-	525,364	525,364
Total	<u>\$ 10,102,861</u>	<u>\$ 77,715</u>	<u>\$ 719,981</u>	<u>\$ 10,900,557</u>

NOTE 7 - UNEARNED REVENUE

Unearned revenue at June 30, 2015, consists of the following:

	Non-Major Governmental Funds
Federal financial assistance	<u>\$ 34,439</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, 2014	Additions	Deductions	Balance June 30, 2015	Due in One Year
General obligation bonds payable	\$ 46,104,635	\$ 688,988	\$ 410,000	\$ 46,383,623	\$ 489,140
Premium on issuance	414,610	-	31,994	382,616	-
Supplemental Early Retirement Program (SERP)	1,714,929	-	571,644	1,143,285	571,644
Compensated absences	359,839	62,437	-	422,276	-
Net OPEB obligation	160,907	190,714	115,304	236,317	-
	<u>\$ 48,754,920</u>	<u>\$ 942,139</u>	<u>\$ 1,128,942</u>	<u>\$ 48,568,117</u>	<u>\$ 1,060,784</u>

MORONGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

- 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 vacation 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.

General Obligation Bonds

The general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds			Bonds	
				Outstanding July 1, 2014	Issued	Accreted	Redeemed	Outstanding June 30, 2015
4/25/06	8/1/14	3.88-7.00%	\$ 10,000,000	\$ 170,000	\$ -	\$ -	\$ 170,000	\$ -
6/12/08	8/1/38	4.00-5.25%	21,000,000	19,620,000	-	-	185,000	19,435,000
3/29/12	8/1/42	4.34-12.00%	17,147,652	18,529,635	-	688,988	-	19,218,623
11/29/12	8/1/30	2.00-5.00%	7,935,000	7,785,000	-	-	55,000	7,730,000
			<u>\$ 56,082,652</u>	<u>\$ 46,104,635</u>	<u>\$ -</u>	<u>\$ 688,988</u>	<u>\$ 410,000</u>	<u>\$ 46,383,623</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, 2015, the principal balance outstanding was \$19,435,000.

The bonds mature as follows:

Fiscal Year	Interest to		Total
	Principal	Maturity	
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	160,000	940,169	1,100,169
2020	195,000	933,069	1,128,069
2021-2025	1,580,000	4,496,899	6,076,899
2026-2030	2,870,000	4,003,900	6,873,900
2031-2035	7,400,000	2,744,006	10,144,006
2036-2039	6,615,000	600,469	7,215,469
Total	<u>\$ 19,435,000</u>	<u>\$ 16,586,319</u>	<u>\$ 36,021,319</u>

MORONGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

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, 2015, the principal balance outstanding was \$19,218,623.

The bonds mature as follows:

Fiscal Year	2005 Current Interest Bonds		Capital Appreciation Bonds	
	Principal	Interest	Principal	Future Interest Accretion
2016	\$ -	\$ 304,013	\$ 44,140	\$ 404,680
2017	-	304,013	82,935	426,323
2018	-	304,013	116,546	443,492
2019	-	304,013	190,162	449,323
2020	-	304,013	184,627	449,109
2021-2025	-	1,520,063	1,174,702	2,107,153
2026-2030	-	1,520,063	689,630	2,263,932
2031-2035	-	1,520,063	1,682,580	2,408,385
2036-2040	-	1,520,063	1,748,298	1,153,983
2041-2043	7,370,000	521,400	-	-
Total	<u>\$ 7,370,000</u>	<u>\$ 8,121,717</u>	<u>\$ 5,913,620</u>	<u>\$ 10,106,380</u>

Convertible Capital Appreciation Bonds			Total Principal and Interest		
Principal	Future Interest Accretion	Interest	Principal	Future Interest Accretion	Interest
\$ -	\$ 326,425	\$ -	\$ 44,140	\$ 731,105	\$ 304,013
-	344,379	-	82,935	770,702	304,013
-	363,319	-	116,546	806,811	304,013
-	383,302	-	190,162	832,625	304,013
-	404,384	-	184,627	853,493	304,013
-	2,381,031	-	1,174,702	4,488,184	1,520,063
5,935,003	142,157	1,696,200	6,624,633	2,406,089	3,216,263
-	-	2,827,000	1,682,580	2,408,385	4,347,063
-	-	2,827,000	1,748,298	1,153,983	4,347,063
-	-	1,109,900	7,370,000	-	1,631,300
<u>\$ 5,935,003</u>	<u>\$ 4,344,997</u>	<u>\$ 8,460,100</u>	<u>\$ 19,218,623</u>	<u>\$ 14,451,377</u>	<u>\$ 16,581,817</u>

MORONGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

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, 2015, the principal balance outstanding was \$7,730,000.

The bonds mature as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2016	\$ 250,000	\$ 240,725	\$ 490,725
2017	275,000	232,850	507,850
2018	305,000	225,675	530,675
2019	335,000	217,600	552,600
2020	375,000	208,825	583,825
2021-2025	2,400,000	852,175	3,252,175
2026-2030	3,690,000	306,025	3,996,025
2031	100,000	1,500	101,500
Total	<u>\$ 7,730,000</u>	<u>\$ 2,285,375</u>	<u>\$ 10,015,375</u>

MORONGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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, 2015, is \$1,143,285.

Future payments are as follows:

Year Ending June 30,	Amount
2016	\$ 571,644
2017	571,641
Total	<u>\$ 1,143,285</u>

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2015, amounted to \$422,276.

Other Postemployment Benefits (OPEB) Obligation

The District's annual required contribution for the year ended June 30, 2015, was \$183,473, and contributions made by the District during the year were \$108,023. Interest on the net OPEB obligation and adjustments to the annual required contribution were \$7,241 and \$(7,281), respectively, which resulted in an increase to the net OPEB obligation of \$75,410. As of June 30, 2015, the net OPEB obligation was \$236,317. 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, 2015

NOTE 9 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Capital Facilities Fund	Non-Major Governmental Funds	Total
Nonspendable				
Revolving cash	\$ 35,000	\$ -	\$ 70	\$ 35,070
Stores inventories	12,674	-	75,770	88,444
Prepaid expenditures	8,524	-	-	8,524
Total Nonspendable	<u>56,198</u>	<u>-</u>	<u>75,840</u>	<u>132,038</u>
Restricted				
Legally restricted programs	1,839,739	-	320	1,840,059
Capital projects	-	12,556,603	2,537,562	15,094,165
Debt services	-	-	2,317,232	2,317,232
Total Restricted	<u>1,839,739</u>	<u>12,556,603</u>	<u>4,855,114</u>	<u>19,251,456</u>
Committed				
Other committed	-	-	910,711	910,711
Assigned				
Heath and welfare set aside	1,463,864	-	-	1,463,864
VOIP Reserve	75,000	-	-	75,000
Site Discretionary/LCAP	151,118	-	-	151,118
Site Donations	30,971	-	-	30,971
Lottery Reserve	265,325	-	-	265,325
Deferred maintenance program	612,533	-	-	612,533
Certificated Staff	478,000	-	-	478,000
LCAP-District	167,000	-	-	167,000
Total Assigned	<u>3,243,811</u>	<u>-</u>	<u>-</u>	<u>3,243,811</u>
Unassigned				
Economic uncertainties	2,588,014	-	-	2,588,014
Remaining unassigned	6,830,981	-	-	6,830,981
Total Unassigned	<u>9,418,995</u>	<u>-</u>	<u>-</u>	<u>9,418,995</u>
Total	<u>\$ 14,558,743</u>	<u>\$ 12,556,603</u>	<u>\$ 5,841,665</u>	<u>\$ 32,957,011</u>

MORONGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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. There were no unpaid claims as of June 30, 2015.

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 65 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 2014-2015, the actuarially determined amount contributed by the District as an implicit rate subsidy to current retirees was \$108,023.

MORONGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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	\$ 183,473
Interest on net OPEB obligation	7,241
Adjustment to annual required contribution	<u>(7,281)</u>
Annual OPEB cost (expense)	183,433
Contributions made	<u>(108,023)</u>
Increase in net OPEB obligation	75,410
Net OPEB obligation, beginning of year	<u>160,907</u>
Net OPEB obligation, end of year	<u><u>\$ 236,317</u></u>

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
2013	\$ 153,307	\$ 129,401	84%	\$ 132,152
2014	153,339	124,584	81%	160,907
2015	183,433	108,023	59%	236,317

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 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, 2015	\$ -	\$ 1,465,954	\$ 1,465,954	0%	\$ 52,520,366	3%

MORONGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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.

In the January 1, 2015, 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, 2015, 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 defined benefit pension plans maintained by agencies of the State of California. Academic employees are members of the California State Teachers' Retirement System (CalSTRS) and classified employees are members of the California Public Employees' Retirement System (CalPERS).

MORONGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

The District implemented GASB Statements No. 68 and No. 71 for the fiscal year ended June 30, 2015. As a result, the District reported its proportionate share of the net pension liabilities, pension expense, and deferred inflow of resources for each of the above plans and a deferred outflow of resources for each of the above plans as follows:

<u>Pension Plan</u>	<u>Proportionate Share of Net Pension Liability</u>	<u>Deferred Outflow of Resources</u>	<u>Proportionate Share of Deferred Inflow of Resources</u>	<u>Proportionate Share of Pension Expense</u>
CalSTRS	\$ 42,153,464	\$ 3,149,705	\$ 10,380,210	\$ 3,653,324
CalPERS	10,072,581	1,495,105	3,461,052	1,296,457
Total	<u>\$ 52,226,045</u>	<u>\$ 4,644,810</u>	<u>\$ 13,841,262</u>	<u>\$ 4,949,781</u>

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

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

A full description of the pension plan regarding benefit provisions, assumptions for funding, but not accounting purposes, and membership information is listed in the June 30, 2013, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publically available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/member-publications>.

Benefits Provided

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

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

MORONGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

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

The STRP provisions and benefits in effect at June 30, 2015, are summarized as follows:

	STRP Defined Benefit Program	
	On or before	On or after
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 Years of Service	5 Years of Service
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	8.15%	8.15%
Required employer contribution rate	8.88%	8.88%
Required State contribution rate	5.95%	5.95%

Contributions

Required member District and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven year period. The contribution rates for each plan for the year ended June 30, 2015, are presented above and the District's total contributions were \$3,149,705.

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

At June 30, 2015, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related state support and the total portion of the net pension liability that was associated with the District were as follows:

Total Net Pension Liability, Including State Share:

District's proportionate share of net pension liability	\$ 42,153,464
State's proportionate share of the net pension liability associated with the District	25,454,081
Total	<u>\$ 67,607,545</u>

The net pension liability was measured as of June 30, 2014. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. At June 30, 2015, the District's proportion was 0.0721 percent.

MORONGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

For the year ended June 30, 2015, the District recognized pension expense of \$3,653,324 and revenue of \$362,987 for support provided by the State. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 3,149,705	\$ -
Difference between projected and actual earnings on pension plan investments	-	10,380,210
Total	<u>\$ 3,149,705</u>	<u>\$ 10,380,210</u>

The deferred outflow of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

The deferred inflow of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Amortization
2016	\$ 2,595,053
2017	2,595,053
2018	2,595,053
2019	2,595,051
Total	<u>\$ 10,380,210</u>

Actuarial Methods and Assumptions

Total pension liability for STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2013, and rolling forward the total pension liability to June 30, 2014. The financial reporting actuarial valuation as of June 30, 2013, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2013
Measurement date	June 30, 2014
Experience study	July 1, 2006 through June 30, 2010
Actuarial cost method	Entry age normal
Discount rate	7.60%
Investment rate of return	7.60%
Consumer price inflation	3.00%
Wage growth	3.75%

MORONGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

CalSTRS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are based on RP2000 series tables adjusted to fit CalSTRS experience.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant. Based on the model for CalSTRS consulting actuary' investment practice, a best estimate range was determined by assuming the portfolio is re-balanced annually and that the annual returns are log normally distributed and independently from year to year to develop expected percentile for the long-term distribution of annualized returns. The assumed asset allocation is based on board policy for target asset allocation in effect on February 2, 2012, the date the current experience study was approved by the board. Best estimates of 10-year geometric real rates of return and the assumed asset allocation for each major asset class used as input to develop the actuarial investment rate of return are summarized in the following table:

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global equity	47%	4.50%
Private equity	12%	6.20%
Real estate	15%	4.35%
Inflation sensitive	5%	3.20%
Fixed income	20%	0.20%
Cash/liquidity	1%	0.00%

Discount Rate

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

MORONGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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

<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% decrease (6.60%)	\$ 65,706,225
Current discount rate (7.60%)	42,153,464
1% increase (8.60%)	22,514,741

California Public Employees Retirement System (CalPERS)

Plan Description

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

A full description of the pension plan regarding benefit provisions, assumptions for funding, but not accounting purposes, and membership information is listed in the June 30, 2013 annual actuarial valuation report, Schools Pool Actuarial Valuation, 2013. This report and CalPERS audited financial information are publically available reports that can be found on the CalPERS website under Forms and Publications at:

<https://www.calpers.ca.gov/page/forms-publications>.

Benefits Provided

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

MORONGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

The CalPERS provisions and benefits in effect at June 30, 2015, are summarized as follows:

	School Employer Pool (CalPERS)	
	On or before	On or after
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 Years of Service	5 Years of Service
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.000%	6.000%
Required employer contribution rate	11.771%	11.771%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2015, are presented above and the total District contributions were \$1,215,077.

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

As of June 30, 2015, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$10,072,581. The net pension liability was measured as of June 30, 2014. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. At June 30, 2015, the District's proportion was 0.0887 percent.

MORONGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

For the year ended June 30, 2015, the District recognized pension expense of \$1,296,457. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 1,215,077	\$ -
Net change in proportionate share of net pension liability	280,028	
Difference between projected and actual earnings on pension plan investments	-	3,461,052
Total	<u>\$ 1,495,105</u>	<u>\$ 3,461,052</u>

The deferred outflow of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

The deferred outflows of resources related to the net change in proportionate share of net pension liability will be amortized over the average expected remaining service lives (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the 2013-2014 measurement period is 3.9 years and the pension expense will be recognized as follows:

Year Ended June 30,	Amortization
2016	\$ 93,343
2017	93,343
2018	93,342
Total	<u>\$ 280,028</u>

The deferred inflow of resources related to the differences between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Amortization
2016	\$ 865,263
2017	865,263
2018	865,263
2019	865,263
Total	<u>\$ 3,461,052</u>

MORONGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

Actuarial Methods and Assumptions

Total pension liability for the SEP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2013, and rolling forward the total pension liability to June 30, 2014. The financial reporting actuarial valuation as of June 30, 2013, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2013
Measurement date	June 30, 2014
Experience study	July 1, 1997 through June 30, 2011
Actuarial cost method	Entry age normal
Discount rate	7.50%
Investment rate of return	7.50%
Consumer price inflation	2.75%
Wage growth	3.00%

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first ten years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global equity	47%	5.25%
Global fixed income	19%	0.99%
Private equity	12%	6.83%
Real estate	11%	4.50%
Inflation sensitive	6%	0.45%
Infrastructure and Forestland	3%	4.50%
Liquidity	2%	-0.55%

MORONGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Based on these assumptions, the School Employer Pool fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

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

<u>Discount rate</u>	<u>Net Pension Liability</u>
1% decrease (6.50%)	\$ 17,669,607
Current discount rate (7.50%)	10,072,581
1% increase (8.50%)	3,724,501

Other Information

Under CalSTRS law, certain early retirement incentives require the employer to pay the present value of the additional benefit which may be paid on either a current or deferred basis. The District has obligations to CalSTRS totaling \$1,143,285 for early retirement incentives granted to terminated employees.

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 \$266,475.

MORONGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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 \$1,834,522 (5.679 percent of the Districts 2012-2013 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, 2015.

Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2015.

MORONGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

Construction Commitments

As of June 30, 2015, the District had the following commitments with respect to the unfinished capital projects:

<u>Capital Projects</u>	<u>Remaining Construction Commitment</u>	<u>Expected Date of Completion</u>
Black Rock Continuation School	\$ 43,875	4/30/2016
Onaga Elementary School	82,313	4/30/2016
Twentynine Palms High School Modernization	243,072	4/30/2016
Condor Elementary Modernization	111,153	11/1/2015
La Contenta Middle School	24,500	4/30/2016
Yucca Valley High School Modernization	364,344	4/30/2016
Twentynine Palms Junior High School Modernization	29,000	4/30/2016
ICE West	11,815	01/31/16
	<u>\$ 910,072</u>	

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, 2015, the District made payments of \$15,746,150, \$284,200, and \$2,336,013, to HDIEET/SCSEBA, SELF, and SCSRM, respectively.

MORONGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

NOTE 15 - RESTATEMENT OF PRIOR YEAR NET POSITION

The District adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, in the current year. As a result, the effect on the current fiscal year is as follows:

Government-Wide - Statement of Net Position

Net Position - Beginning	\$ 73,999,778
Inclusion of net pension liability from the adoption of GASB Statement No. 68	(64,833,887)
Inclusion of deferred outflow of resources from the adoption of GASB Statement No. 68	<u>3,716,361</u>
Net Position - Beginning, as Restated	<u><u>\$ 12,882,252</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

MORONGO UNIFIED SCHOOL DISTRICT

**GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2015**

	Budgeted Amounts		Actual (GAAP Basis)	Variances -
	Original	Final		Positive
				Final to Actual
REVENUES				
Local Control Funding Formula	\$ 60,569,660	\$ 59,718,574	\$ 59,642,943	\$ (75,631)
Federal sources	8,204,098	9,974,780	9,268,647	(706,133)
Other State sources	6,881,640	7,549,329	9,387,963	1,838,634
Other local sources	673,760	2,009,270	1,811,755	(197,515)
Total Revenues ¹	<u>76,329,158</u>	<u>79,251,953</u>	<u>80,111,308</u>	<u>859,355</u>
EXPENDITURES				
Current				
Certificated salaries	36,608,460	39,000,632	38,621,139	379,493
Classified salaries	10,938,875	12,662,550	12,450,330	212,220
Employee benefits	14,997,811	15,850,210	17,219,646	(1,369,436)
Books and supplies	5,350,330	6,111,968	4,529,632	1,582,336
Services and operating expenditures	14,108,567	14,206,478	12,363,499	1,842,979
Capital Outlay	37,000	230,348		230,348
Other outgo	(94,381)	197,894	375,829	(177,935)
Debt service				
Principal	55,783	55,783	-	55,783
Interest	9,000	9,000	3,236	5,764
Total Expenditures ¹	<u>82,011,445</u>	<u>88,324,863</u>	<u>85,563,311</u>	<u>2,761,552</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(5,682,287)</u>	<u>(9,072,910)</u>	<u>(5,452,003)</u>	<u>3,620,907</u>
OTHER FINANCING USE				
Transfers out	-	-	(64,000)	(64,000)
NET CHANGE IN FUND BALANCE	<u>(5,682,287)</u>	<u>(9,072,910)</u>	<u>(5,516,003)</u>	<u>3,556,907</u>
Fund Balance - Beginning	<u>20,074,746</u>	<u>20,074,746</u>	<u>20,074,746</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 14,392,459</u>	<u>\$ 11,001,836</u>	<u>\$ 14,558,743</u>	<u>\$ 3,556,907</u>

¹ On behalf payments of \$1,834,522 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, 2015**

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, 2015	\$ -	\$ 1,465,954	\$ 1,465,954	0%	\$ 52,520,366	3%

MORONGO UNIFIED SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY FOR THE YEAR ENDED JUNE 30, 2015

	<u>2015</u>
CalSTRS	
District's proportion of the net pension liability	<u>0.0721%</u>
District's proportionate share of the net pension liability	\$ 42,153,464
State's proportionate share of the net pension liability associated with the District	<u>25,454,081</u>
Total	<u><u>\$ 67,607,545</u></u>
District's covered - employee payroll	<u>\$ 32,239,600</u>
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	<u>130.75%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>77%</u>
CalPERS	
District's proportion of the net pension liability	<u>0.8870%</u>
District's proportionate share of the net pension liability	<u>\$ 10,072,581</u>
District's covered - employee payroll	<u>\$ 9,337,327</u>
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	<u>107.87%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>83%</u>

Note: In the future, as data become available, ten years of information will be presented.

MORONGO UNIFIED SCHOOL DISTRICT

SCHEDULE OF DISTRICT CONTRIBUTIONS FOR THE YEAR ENDED JUNE 30, 2015

	<u>2015</u>
CalSTRS	
Contractually required contribution	\$ 3,149,705
Contributions in relation to the contractually required contribution	<u>3,149,705</u>
Contribution deficiency (excess)	<u>\$ -</u>
District's covered - employee payroll	<u>\$ 35,469,651</u>
Contributions as a percentage of covered - employee payroll	<u>8.88%</u>
CalPERS	
Contractually required contribution	\$ 1,215,077
Contributions in relation to the contractually required contribution	<u>1,215,077</u>
Contribution deficiency (excess)	<u>\$ -</u>
District's covered - employee payroll	<u>\$ 10,323,509</u>
Contributions as a percentage of covered - employee payroll	<u>11.77%</u>

Note: In the future, as data become available, ten years of information will be presented.

SUPPLEMENTARY INFORMATION

MORONGO UNIFIED SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2015

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	\$ 3,030,985
Carl D. Perkins Vocational and Technical Education Act of 1998 Secondary Education (Section 131)	84.048	14894	92,333
No Child Left Behind Act (NCLB)			
Title II, Part A, Improving Teacher Quality Local Grants	84.367	14341	488,408
Title I, Part A, Basic Grants Low Income and Neglected - Reallocation Funds	84.010	14329	2,757,059
Title I, Part A, Program Improvement LEA Corrective Action, Minor Performance Problems	84.010	14955	27,272
Total Title I, Part A Cluster			<u>2,784,331</u>
Title I, Part G: Advanced Placement (AP) Test Fee Reimbursement Program	84.330B	14831	3,996
Title III, Limited English Proficient (LEP) Student Program	84.365	14346	57,000
Passed through San Bernardino County Special Education Local Plan Area:			
Individuals with Disabilities Act (IDEA)			
Special Education Cluster (IDEA):			
Basic Local Assistance Entitlement, Part B, Section 611	84.027	13379	1,358,331
Preschool Grants, Part B, Section 619 (Age 3-4-5)	84.173	13430	55,453
Preschool Local Entitlement, Part B, Section 611 (Age 3-4-5)	84.027A	13682	140,786
Mental Health Allocation Plan, Part B, Section 611	84.027	14468	93,165
Total Special Education (IDEA) Cluster			<u>1,647,735</u>
Early Intervention Grants, Part C	84.181	23761	53,562
Passed through California Department of Rehabilitation			
Workability II, Transitions Partnership	84.158	10006	157,217
Total U.S. Department of Education			<u>8,315,567</u>

See accompanying note to supplementary information.

MORONGO UNIFIED SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2015**

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through 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	\$ 498,062
National School Lunch Program	10.555	13524	2,059,085
Meal Supplement	10.555	13396	50,868
Summer Food Service Program	10.559	13004	21,633
Food Distribution	10.555	13524	124,223
Total U.S. Department of Agriculture			<u>2,753,871</u>
U.S. DEPARTMENT OF DEFENSE			
Department of Defense Education Activity	12.030	[1]	<u>825,350</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	111,915
Medical Administrative Activities Program	93.778	10060	15,815
Total U.S. Department of Health and Human Services			<u>127,730</u>
Total Expenditures of Federal Awards			<u><u>\$ 12,022,518</u></u>

[1] Direct-funded; no PCA number

See accompanying note to supplementary information.

MORONGO UNIFIED SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2015

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>
Karalee Hargrove	President	2016
Chris Proudfoot	Clerk	2018
Ronald Palmer	Member	2016
Hilary Slotta	Member	2018
John (Ed) Will	Member	2016

ADMINISTRATION

Tom Baumgarten	Superintendent
Sharon Flores	Assistant Superintendent, Business Services
Debbie Turner	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, 2015

	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Transitional kindergarten through third	2,710.53	2,697.49
Fourth through sixth	1,835.78	1,827.10
Seventh and eighth	1,109.27	1,101.43
Ninth through twelfth	2,043.97	2,016.17
Total Regular ADA	<u>7,699.55</u>	<u>7,642.19</u>
Extended Year Special Education		
Transitional kindergarten through third	3.53	3.53
Fourth through sixth	4.26	4.26
Seventh and eighth	1.63	1.63
Ninth through twelfth	6.16	6.16
Total Extended Year Special Education	<u>15.58</u>	<u>15.58</u>
Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	2.62	3.24
Fourth through sixth	4.25	5.02
Seventh and eighth	5.88	6.02
Ninth through twelfth	9.37	9.74
Total Special Education, Nonpublic, Nonsectarian Schools	<u>22.12</u>	<u>24.02</u>
Total ADA	<u><u>7,737.25</u></u>	<u><u>7,681.79</u></u>

See accompanying note to supplementary information.

MORONGO UNIFIED SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME FOR THE YEAR ENDED JUNE 30, 2015

Grade Level	1986-87	Reduced	2014-15 Actual Minutes	Number of Days		Status
	Minutes Requirement	1986-87 Minutes Requirement		Traditional Calendar	Multitrack Calendar	
Kindergarten	36,000	35,000	51,435	180	N/A	Complied
Grades 1 - 3	50,400	49,000				
Grade 1			52,155	180	N/A	Complied
Grade 2			52,155	180	N/A	Complied
Grade 3			52,290	180	N/A	Complied
Grades 4 - 6	54,000	52,500				
Grade 4			54,000	180	N/A	Complied
Grade 5			54,000	180	N/A	Complied
Grade 6			54,000	180	N/A	Complied
Grades 7 - 8	54,000	52,500				
Grade 7			65,133	180	N/A	Complied
Grade 8			65,133	180	N/A	Complied
Grades 9 - 12	64,800	63,000				
Grade 9			64,971	180	N/A	Complied
Grade 10			64,971	180	N/A	Complied
Grade 11			64,971	180	N/A	Complied
Grade 12			64,971	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, 2015

There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2015.

See accompanying note to supplementary information.

MORONGO UNIFIED SCHOOL DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2015

	(Budget) 2016 ¹	2015	2014	2013
GENERAL FUND				
Revenues and other sources	\$ 87,262,015	\$ 80,111,308	\$ 74,307,886	\$ 72,158,316
Expenditures	89,553,161	85,563,311	77,191,375	71,835,387
Other uses and transfers out	-	64,000	10,738	-
Total Expenditures and Other Uses	89,553,161	85,627,311	77,202,113	71,835,387
INCREASE (DECREASE) IN FUND BALANCE	\$ (2,291,146)	\$ (5,516,003)	\$ (2,894,227)	\$ 322,929
ENDING FUND BALANCE	\$ 12,267,597	\$ 14,558,743	\$ 20,074,746	\$ 22,968,973
AVAILABLE RESERVES ²	\$ 7,287,414	\$ 9,418,995	\$ 7,390,288	\$ 10,405,249
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO ³	8.1%	11.2%	9.8%	14.8%
LONG-TERM OBLIGATIONS	N/A	\$ 48,568,117	\$ 48,754,920	\$ 49,124,292
K-12 AVERAGE DAILY ATTENDANCE AT P-2	7,637	7,737	8,015	8,007

The General Fund balance has decreased by \$8,410,230 over the past two years. The fiscal year 2015-2016 budget projects a further decrease of \$2,291,146 (15.74 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 deficits in two of the past three years and anticipates incurring an operating deficit during the 2015-2016 fiscal year. Total long-term obligations have decreased by \$556,175 over the past two years.

Average daily attendance has decreased by 270 over the past two years. Additional decline of 100 ADA is anticipated during fiscal year 2015-2016.

¹ Budget 2016 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 \$1,834,522, \$1,755,203, and \$1,716,534, has been excluded from the calculation of available reserves for the fiscal years ending June 30, 2015, 2014, and 2013, respectively.

See accompanying note to supplementary information.

MORONGO UNIFIED SCHOOL DISTRICT

**SCHEDULE OF CHARTER SCHOOLS
FOR THE YEAR ENDED JUNE 30, 2015**

<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, 2015**

	Cafeteria Fund	Deferred Maintenance Fund	Building Fund	County School Facilities Fund
ASSETS				
Deposits and investments	\$ 371,869	\$ 909,897	\$ 3,067,755	\$ 140,386
Receivables	463,984	814	2,840	125
Due from other funds	64,000	-	-	-
Stores inventories	75,770	-	-	-
Total Assets	\$ 975,623	\$ 910,711	\$ 3,070,595	\$ 140,511
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 46,437	\$ -	\$ 673,544	\$ -
Due to other funds	818,587	-	-	-
Unearned revenue	34,439	-	-	-
Total Liabilities	899,463	-	673,544	-
Fund Balances:				
Nonspendable	75,840	-	-	-
Restricted	320	-	2,397,051	140,511
Committed	-	910,711	-	-
Total Fund Balances	76,160	910,711	2,397,051	140,511
Total Liabilities and Fund Balances	\$ 975,623	\$ 910,711	\$ 3,070,595	\$ 140,511

See accompanying note to supplementary information.

Bond Interest and Redemption Fund	Non-Major Governmental Funds
\$ 2,317,232	\$ 6,807,139
-	467,763
-	64,000
-	75,770
\$ 2,317,232	\$ 7,414,672

\$ -	\$ 719,981
-	818,587
-	34,439
-	1,573,007

-	75,840
2,317,232	4,855,114
-	910,711
2,317,232	5,841,665
\$ 2,317,232	\$ 7,414,672

MORONGO UNIFIED SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2015**

	Cafeteria Fund	Deferred Maintenance Fund	Building Fund	County School Facilities Fund
REVENUES				
Federal sources	\$ 2,753,871	\$ -	\$ -	\$ -
Other State sources	218,505	-	-	-
Other local sources	591,182	3,592	15,042	552
Total Revenues	<u>3,563,558</u>	<u>3,592</u>	<u>15,042</u>	<u>552</u>
EXPENDITURES				
Current				
Pupil services:				
Food services	3,644,922	-	-	-
Plant services	7,912	5,131	1,856	-
Facility acquisition and construction	-	-	2,011,826	-
Debt service				
Principal	-	-	-	-
Interest and other	-	-	-	-
Total Expenditures	<u>3,652,834</u>	<u>5,131</u>	<u>2,013,682</u>	<u>-</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(89,276)</u>	<u>(1,539)</u>	<u>(1,998,640)</u>	<u>552</u>
OTHER FINANCING SOURCES				
Transfers in	64,000	-	-	-
NET CHANGE IN FUND BALANCES	(25,276)	(1,539)	(1,998,640)	552
Fund Balances - Beginning	101,436	912,250	4,395,691	139,959
Fund Balances - Ending	<u>\$ 76,160</u>	<u>\$ 910,711</u>	<u>\$ 2,397,051</u>	<u>\$ 140,511</u>

See accompanying note to supplementary information.

Bond Interest and Redemption Fund	Non-Major Governmental Funds
\$ -	\$ 2,753,871
36,907	255,412
2,055,559	2,665,927
<u>2,092,466</u>	<u>5,675,210</u>
-	3,644,922
-	14,899
-	2,011,826
410,000	410,000
<u>1,528,881</u>	<u>1,528,881</u>
<u>1,938,881</u>	<u>7,610,528</u>
<u>153,585</u>	<u>(1,935,318)</u>
-	64,000
153,585	(1,871,318)
2,163,647	7,712,983
<u>\$ 2,317,232</u>	<u>\$ 5,841,665</u>

MORONGO UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2015

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.

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	\$ 14,416

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.

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. The District neither met nor exceeded its target funding. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of *Education Code* Sections 46200 through 46206.

Districts must maintain their instructional minutes at the 1986-87 requirements, 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.

MORONGO UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2015

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.

INDEPENDENT AUDITOR'S REPORTS

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
December 14, 2015

Unmodified 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, 2015.

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
December 14, 2015

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 Performed</u>
Attendance Accounting:	
Attendance Reporting	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	Yes
Continuation Education	Yes, see below
Instructional Time	Yes
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	No, see below
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	No, see below
Middle or Early College High Schools	No, see below
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
Regional Occupational Centers or Programs Maintenance of Effort	No, see below
Adult Education Maintenance of Effort	No, see below
California Clean Energy Jobs Act	Yes
After School Education and Safety Program:	Yes
General Requirements	Yes
After School	Yes
Before School	No, see below
Proper Expenditure of Education Protection Account Funds	Yes
Common Core Implementation Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Charter Schools:	
Attendance	No, see below
Mode of Instruction	No, see below
Non Classroom-Based Instruction/Independent Study	No, see below
Determination of Funding for Non Classroom-Based Instruction	No, see below
Annual Instruction Minutes Classroom-Based	No, see below
Charter School Facility Grant Program	No, see below

The District does not offer a Work Experience Program; therefore, we did not perform procedures related to the Work Experience Program within the Continuation Education Attendance Program.

The District does not offer an Early Retirement Incentive Program; therefore, we did not perform procedures related to the Early Retirement Incentive Program.

The District does not have any Juvenile Court Schools; therefore, we did not perform any procedures related to Juvenile Court Schools.

The District does not have a Middle or Early College High School Program; therefore, we did not perform procedures related to the Middle or Early College High School Program.

The District does not offer a Regional Occupational Program; therefore, we did not perform any procedures related to Regional Occupational Centers or Programs Maintenance of Effort.

The District does not offer an Adult Education Program; therefore, we did not perform any procedures related to Adult Education Maintenance of Effort.

The District does not offer a Before School Education and Safety Program; therefore, we did not perform any procedures related to the Before School Education and Safety Program.

The District does not have any Charter Schools; therefore, we did not perform any procedures for Charter School Programs.

Vavrinek, Trine, Day & Co. LLP

Rancho Cucamonga, California
December 14, 2015

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MORONGO UNIFIED SCHOOL DISTRICT

**SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2015**

FINANCIAL STATEMENTS

Type of auditor's 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 Federal programs:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>None reported</u>
Type of auditor's report issued on compliance for major Federal 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 Federal programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>84.027, 84.027A, and 84.173</u>	<u>Special Education Cluster</u>
<u>10.553, 10.555, and 10.559</u>	<u>Child Nutrition Cluster</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 360,676</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

STATE AWARDS

Type of auditor's report issued on compliance for programs:	<u>Unmodified</u>
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MORONGO UNIFIED SCHOOL DISTRICT

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015**

None reported.

MORONGO UNIFIED SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015**

None reported.

MORONGO UNIFIED SCHOOL DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015**

None reported.

MORONGO UNIFIED SCHOOL DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015**

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