



**MORONGO UNIFIED  
SCHOOL DISTRICT**

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ANNUAL FINANCIAL REPORT

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**JUNE 30, 2016**

# MORONGO UNIFIED SCHOOL DISTRICT

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JUNE 30, 2016

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***FINANCIAL SECTION***

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## INDEPENDENT AUDITOR'S REPORT

Governing Board  
Morongo Unified School District  
Twenty-nine Palms, California

### *Report on the Financial Statements*

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Morongo Unified School District (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## ***Opinion***

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

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 13, budgetary comparison schedule, schedule of other postemployment benefits funding progress, schedule of the District's proportionate share of net pension liability, and the schedule of District contributions on pages 68 through 71, 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 Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* 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 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 is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The accompanying unaudited other information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2016, 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 7, 2016



# MORONGO

## UNIFIED SCHOOL DISTRICT

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

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

(760) 367-9191 or 365-3394 Fax: (760) 367-7189

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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, 2016, with comparative information from 2015. 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, 2016

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### *FINANCIAL HIGHLIGHTS OF THE PAST YEAR*

- The District's government-wide Statement of Net Position shows total net position of \$7,038,293, the result of assets of \$128,713,362, plus the total Deferred Outflows of \$14,987,025, minus liabilities of \$124,141,253, and Deferred Inflows of \$12,520,841.
- General revenues accounted for \$80,185,059 in revenue or 81.6 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$18,023,371 or 18.4 percent of total revenues of \$98,208,430.
- The District had \$96,549,396 in expenses related to governmental activities; only \$18,023,371 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 \$80,185,059 were adequate to provide for these programs.
- The General Fund reported a positive fund balance of \$19,139,453.

### *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, 2016

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### ***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, 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, 2016

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### *THE DISTRICT AS A WHOLE*

#### *Net Position*

The District's net position was \$7,038,293 for the fiscal year ended June 30, 2016. Of this amount (\$47,078,495) 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	
	<u>2016</u>	<u>2015</u>
<b>Assets</b>		
Current and other assets	\$ 42,957,190	\$ 44,703,707
Capital assets	<u>85,756,172</u>	<u>82,233,019</u>
<b>Total Assets</b>	<u>128,713,362</u>	<u>126,936,726</u>
<b>Total Deferred Outflows of Resources</b>	<u>14,987,025</u>	<u>4,644,810</u>
<b>Liabilities</b>		
Current liabilities	11,289,515	11,566,853
Long-term obligations	48,312,121	48,568,117
Aggregate Net Pension Liability	<u>64,539,617</u>	<u>52,226,045</u>
<b>Total Liabilities</b>	<u>124,141,253</u>	<u>112,361,015</u>
<b>Total Deferred Inflows of Resources</b>	<u>12,520,841</u>	<u>13,841,262</u>
<b>Net Position</b>		
Net investment in capital assets	41,252,344	40,605,507
Restricted	12,864,444	15,627,684
Unrestricted	<u>(47,078,495)</u>	<u>(50,853,932)</u>
<b>Total Net Position</b>	<u>\$ 7,038,293</u>	<u>\$ 5,379,259</u>

# MORONGO UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

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### *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>2016</u>	<u>2015</u>
<b>Revenues</b>		
Program revenues:		
Charges for services	\$ 706,051	\$ 1,201,273
Operating grants and contributions	17,316,528	16,925,287
Capital grants and contributions	792	551
General revenues:		
Federal and State aid not restricted to specific purposes	68,727,881	58,923,864
Property taxes	8,064,933	7,533,238
Other general revenues	3,392,245	2,009,216
<b>Total Revenues</b>	<u>98,208,430</u>	<u>86,593,429</u>
<b>Expenses</b>		
Instruction-related	65,156,796	64,160,514
Other pupil services	12,179,463	11,420,834
Administration	5,811,594	5,680,334
Maintenance and operations	11,011,021	9,893,018
Other	2,390,522	2,941,722
<b>Total Expenses</b>	<u>96,549,396</u>	<u>94,096,422</u>
<b>Change in Net Position</b>	<u>\$ 1,659,034</u>	<u>\$ (7,502,993)</u>

### *Governmental Activities*

As reported in the *Statement of Activities*, the cost of all of our governmental activities this year was \$96,549,396. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$8,064,933 because the cost was paid by those who benefited from the programs (\$706,051) or by other governments and organizations who subsidized certain programs with grants and contributions \$17,316,528. We paid for the remaining "public benefit" portion of our governmental activities with \$72,120,126 in State funds and other revenues, like interest and general entitlements.

# MORONGO UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

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	
	2016	2015
Instruction-related activities	\$ 53,203,464	\$ 52,305,933
Other pupil services	6,745,827	6,483,800
Administration	5,379,313	5,212,057
Maintenance and operations	11,001,238	9,872,147
Other activities	2,196,183	2,095,374
<b>Total</b>	<b>\$ 78,526,025</b>	<b>\$ 75,969,311</b>

### ***THE DISTRICT FUNDS***

As the District completed this year, our governmental funds reported a combined fund balance of \$31,476,883 which is a decrease of \$1,480,128 over last year.

**Table 4**

	Balances and Activity			
	July 1, 2015	Revenues	Expenditures	June 30, 2016
General Fund	\$ 15,469,454	\$ 91,926,938	\$ 88,256,939	\$ 19,139,453
Cafeteria Fund	76,160	3,896,495	3,778,452	194,203
Building Fund	2,397,051	21,071	838,583	1,579,539
Capital Facilities Fund	12,556,603	780,675	5,224,435	8,112,843
County School Facilities Fund	140,511	792	-	141,303
Bond Interest and Redemption Fund	2,317,232	1,993,066	2,000,756	2,309,542
<b>Total</b>	<b>\$ 32,957,011</b>	<b>\$ 98,619,037</b>	<b>\$ 100,099,165</b>	<b>\$ 31,476,883</b>

# MORONGO UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

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### *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 \$694,911 more than expected and expenditures were \$2,270,775 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 68.)

### **CAPITAL ASSET AND DEBT ADMINISTRATION**

#### *Capital Assets (Net of Depreciation)*

At the end of fiscal year of 2016, the District had \$85,756,172 invested in land, buildings, equipment, and construction in progress. Table 5 shows fiscal year 2015-2016 balances compared to fiscal year 2014-2015 balances.

**Table 5**

	Governmental Activities	
	2016	2015
Land	\$ 1,958,169	\$ 1,958,169
Construction in progress	20,800,904	14,623,141
Buildings and improvements	60,965,161	63,020,225
Furniture and equipment	2,031,938	2,631,484
<b>Total</b>	<b>\$ 85,756,172</b>	<b>\$ 82,233,019</b>

We present more detailed information about our capital assets in Note 5 to the financial statements.

#### *Long-Term Obligations*

At the end of this year, the District had \$46,624,729 of general obligation bonds payable, \$358,702 of premium on issuance, \$571,641 in supplemental early retirement program payable, \$435,010 in compensated absences payable, and \$322,039 in net OPEB obligation. We present more detailed information regarding our long-term obligations in Note 9 of the financial statements.

# MORONGO UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

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### *Net Pension Liability (NPL)*

At year-end, the District had a pension liability of \$64,539,617, 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 2015-2016 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 2016-2017 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 54.18 GAP funding percentage.

Expenditures are based on the following forecasts:

	<u>Staffing Ratio</u>	<u>Enrollment</u>
Grades kindergarten through three	23:1	2,846
Grades four through six	25:1	1,924
Grades seven through eight	25:1	1,124
Grades nine through twelve	27:1	1,925

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

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

# **MORONGO UNIFIED SCHOOL DISTRICT**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016**

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### ***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](mailto:sharon_flores@morongo.k12.ca.us).



# MORONGO UNIFIED SCHOOL DISTRICT

## STATEMENT OF NET POSITION JUNE 30, 2016

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	<b>Governmental Activities</b>
<b>ASSETS</b>	
Deposits and investments	\$ 37,789,588
Receivables	5,056,269
Prepaid expenditures	9,517
Stores inventories	101,816
Capital assets	
Land and construction in progress	22,759,073
Other capital assets	117,616,076
Less: accumulated depreciation	(54,618,977)
Total Capital Assets, Net of Accumulated Depreciation	<u>85,756,172</u>
<b>Total Assets</b>	<u><u>128,713,362</u></u>
 <b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred outflows of resources related to pensions	<u>14,987,025</u>
 <b>LIABILITIES</b>	
Accounts payable	10,625,658
Interest payable	625,482
Unearned revenue	38,375
Long-term obligations	
Current portion of long-term obligations other than pensions	1,144,528
Noncurrent portion of long-term obligations other than pensions	47,167,593
Total Long-Term Obligations	<u>48,312,121</u>
Aggregate net pension liability	<u>64,539,617</u>
<b>Total Liabilities</b>	<u><u>124,141,253</u></u>
 <b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred inflows of resources related to pensions	<u>12,520,841</u>
 <b>NET POSITION</b>	
Net investment in capital assets	41,252,344
Restricted for:	
Debt service	1,684,060
Capital projects	8,085,188
Educational programs	2,900,993
Other activities	194,203
Unrestricted	(47,078,495)
<b>Total Net Position</b>	<u><u>\$ 7,038,293</u></u>

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

# MORONGO UNIFIED SCHOOL DISTRICT

## STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expenses)
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Revenues and Changes in Net Position
					Governmental Activities
<b>Governmental Activities:</b>					
Instruction	\$ 55,937,257	\$ 3,030	\$ 10,664,103	\$ 792	\$ (45,269,332)
Instruction-related activities:					
Supervision of instruction	2,328,395	5	1,085,654	-	(1,242,736)
Instructional library, media and technology	846,832	6,203	22,187	-	(818,442)
School site administration	6,044,312	-	171,358	-	(5,872,954)
Pupil services:					
Home-to-school transportation	3,216,351	-	-	-	(3,216,351)
Food services	3,809,404	581,338	3,055,900	-	(172,166)
All other pupil services	5,153,708	-	1,796,398	-	(3,357,310)
Administration:					
Data processing	1,675,465	2,607	8,008	-	(1,664,850)
All other administration	4,136,129	17,054	404,612	-	(3,714,463)
Plant services	11,011,021	1,683	8,100	-	(11,001,238)
Ancillary services	450,721	-	13,370	-	(437,351)
Community services	161,943	-	45,000	-	(116,943)
Interest on long-term obligations	1,654,119	-	-	-	(1,654,119)
Other outgo	123,739	94,131	41,838	-	12,230
<b>Total Governmental Activities</b>	<b>\$ 96,549,396</b>	<b>\$ 706,051</b>	<b>\$ 17,316,528</b>	<b>\$ 792</b>	<b>(78,526,025)</b>
General revenues and subventions:					
					5,487,405
Property taxes, levied for general purposes					1,953,560
Property taxes, levied for debt service					623,968
Taxes levied for other specific purposes					68,727,881
Federal and State aid not restricted to specific purposes					115,074
Interest and investment earnings					(1,690)
Interagency revenues					3,278,861
Miscellaneous					
<b>Subtotal, General Revenues</b>					<b>80,185,059</b>
<b>Change in Net Position</b>					<b>1,659,034</b>
Net Position - Beginning					5,379,259
Net Position - Ending					<b>\$ 7,038,293</b>

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

# MORONGO UNIFIED SCHOOL DISTRICT

## GOVERNMENTAL FUNDS BALANCE SHEET JUNE 30, 2016

	<u>General Fund</u>	<u>Building Fund</u>	<u>Capital Facilities Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>					
Deposits and investments	\$ 23,767,905	\$ 1,748,497	\$ 8,657,818	\$ 2,800,537	\$ 36,974,757
Receivables	4,274,520	3,628	284,703	491,975	5,054,826
Due from other funds	682,890	-	-	-	682,890
Prepaid expenditures	9,517	-	-	-	9,517
Stores inventories	26,036	-	-	75,780	101,816
<b>Total Assets</b>	<u>\$ 28,760,868</u>	<u>\$ 1,752,125</u>	<u>\$ 8,942,521</u>	<u>\$ 3,368,292</u>	<u>\$ 42,823,806</u>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Accounts payable	\$ 9,621,415	\$ 172,586	\$ 829,678	\$ 1,979	\$ 10,625,658
Due to other funds	-	-	-	682,890	682,890
Unearned revenue	-	-	-	38,375	38,375
<b>Total Liabilities</b>	<u>9,621,415</u>	<u>172,586</u>	<u>829,678</u>	<u>723,244</u>	<u>11,346,923</u>
<b>Fund Balances:</b>					
Nonspendable	70,553	-	-	75,832	146,385
Restricted	2,900,993	1,579,539	8,112,843	2,569,216	15,162,591
Assigned	13,253,702	-	-	-	13,253,702
Unassigned	2,914,205	-	-	-	2,914,205
<b>Total Fund Balances</b>	<u>19,139,453</u>	<u>1,579,539</u>	<u>8,112,843</u>	<u>2,645,048</u>	<u>31,476,883</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 28,760,868</u>	<u>\$ 1,752,125</u>	<u>\$ 8,942,521</u>	<u>\$ 3,368,292</u>	<u>\$ 42,823,806</u>

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, 2016

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<b>Total Fund Balance - Governmental Funds</b>		<b>\$ 31,476,883</b>
<b>Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:</b>		
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	\$ 140,375,149	
Accumulated depreciation is the following	<u>(54,618,977)</u>	
Net Capital Assets		85,756,172
Expenditures relating to contributions made to pension plans were recognized on the modified accrual basis, but are not recognized on the accrual basis.		5,166,134
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.		(625,482)
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:		816,274
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.		(10,991,021)
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.		9,205,334
The differences between expected and actual experience in the measurement of the total pension liability are not recognized on the modified accrual basis, but are recognized on the accrual basis over the expected average remaining service life of members receiving pension benefits.		(101,835)

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 (CONTINUED) JUNE 30, 2016

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The changes of assumptions is not recognized as an expenditure under the modified accrual basis, but is recognized on the accrual basis over the expected average remaining service life of members receiving pension benefits.		\$ (812,428)
Net pension liability is not due and payable in the current period, and is not reported as a liability in the funds.		(64,539,617)
Long-term obligations at year-end consist of the following:		
General obligation bonds	\$ 45,893,623	
Unamortized premium amount on issuance	358,702	
Supplemental early retirement program	571,641	
Compensated absences	435,010	
Net OPEB obligation	322,039	
In addition, the District previously issued "capital appreciation" general obligation bonds. The cumulative capital accretion on the general obligation bonds is:		
	<u>731,106</u>	
Total Long-Term Obligations		<u>(48,312,121)</u>
<b>Total Net Position - Governmental Activities</b>		<b><u><u>\$ 7,038,293</u></u></b>

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, 2016

	<u>General Fund</u>	<u>Building Fund</u>	<u>Capital Facilities Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>					
Local Control Funding Formula	\$ 67,646,946	\$ -	\$ -	\$ -	\$ 67,646,946
Federal sources	7,719,439	-	-	3,052,376	10,771,815
Other State sources	15,289,874	-	-	264,836	15,554,710
Other local sources	1,270,679	21,071	780,675	2,573,141	4,645,566
<b>Total Revenues</b>	<u>91,926,938</u>	<u>21,071</u>	<u>780,675</u>	<u>5,890,353</u>	<u>98,619,037</u>
<b>EXPENDITURES</b>					
Current					
Instruction	53,570,664	-	-	-	53,570,664
Instruction-related activities:					
Supervision of instruction	2,300,416	-	-	-	2,300,416
Instructional library, media, and technology	802,514	-	-	-	802,514
School site administration	5,937,630	-	-	-	5,937,630
Pupil services:					
Home-to-school transportation	3,213,355	-	-	-	3,213,355
Food services	13,098	-	-	3,667,058	3,680,156
All other pupil services	5,139,722	-	-	-	5,139,722
Administration:					
Data processing	1,237,694	-	-	-	1,237,694
All other administration	3,901,718	-	3,692	102,290	4,007,700
Plant services	10,973,471	640	3,856	9,104	10,987,071
Facility acquisition and construction	422,135	837,943	5,216,887	-	6,476,965
Ancillary services	444,923	-	-	-	444,923
Community services	161,670	-	-	-	161,670
Other outgo	123,739	-	-	-	123,739
Debt service					
Principal	12,851	-	-	475,613	488,464
Interest and other	1,339	-	-	1,525,143	1,526,482
<b>Total Expenditures</b>	<u>88,256,939</u>	<u>838,583</u>	<u>5,224,435</u>	<u>5,779,208</u>	<u>100,099,165</u>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<u>3,669,999</u>	<u>(817,512)</u>	<u>(4,443,760)</u>	<u>111,145</u>	<u>(1,480,128)</u>
<b>NET CHANGE IN FUND BALANCES</b>	3,669,999	(817,512)	(4,443,760)	111,145	(1,480,128)
<b>Fund Balances - Beginning</b>	15,469,454	2,397,051	12,556,603	2,533,903	32,957,011
<b>Fund Balances - Ending</b>	<u>\$ 19,139,453</u>	<u>\$ 1,579,539</u>	<u>\$ 8,112,843</u>	<u>\$ 2,645,048</u>	<u>\$ 31,476,883</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, 2016

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<b>Total Net Change in Fund Balances - Governmental Funds</b>		<b>\$ (1,480,128)</b>
<b>Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:</b>		
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	\$ 6,550,015	
Depreciation expense	<u>(3,024,566)</u>	
		3,525,449
Loss on disposal of capital assets is reported in the government-wide financial Statement of Net Assets, but is not recorded in the governmental funds.		(2,296)
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 \$12,734.		558,910
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 the deferred outflows, deferred inflows and net pension liability during the year.		(650,936)
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 \$82,722.		(85,722)
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		490,000

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, 2016

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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 \$ 23,914

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 \$6,375, and second, \$731,106 of additional accumulated interest was accreted on the District's "capital appreciation" general obligation bonds.

(724,731)

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.

4,574

**Change in Net Position of Governmental Activities**

**\$ 1,659,034**

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



**MORONGO UNIFIED SCHOOL DISTRICT**

**PROPRIETARY FUND  
STATEMENT OF NET POSITION  
JUNE 30, 2016**

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	<u>Governmental Activities</u> <u>Internal Service Fund</u>
<b>ASSETS</b>	
<b>Current Assets</b>	
Deposits and investments	\$ 814,831
Receivables	1,443
<b>Total Current Assets</b>	<u>816,274</u>
 <b>NET POSITION</b>	
Unrestricted	<u>\$ 816,274</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, 2016**

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	<b>Governmental Activities Internal Service Fund</b>
<b>NON-OPERATING REVENUES</b>	
Interest income	\$ 4,574
<b>Change in Net Position</b>	4,574
<b>Total Net Position - Beginning</b>	811,700
<b>Total Net Position - Ending</b>	<u>\$ 816,274</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, 2016**

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	<u>Governmental Activities</u>
	<u>Internal Service Fund</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest on investments	<u>\$ 3,855</u>
Net Change in Cash and Cash Equivalents	3,855
Cash and Cash equivalents - Beginning	810,976
Cash and Cash Equivalents - Ending	<u><u>\$ 814,831</u></u>

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

# MORONGO UNIFIED SCHOOL DISTRICT

## FIDUCIARY FUNDS STATEMENT OF NET POSITION JUNE 30, 2016

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	<u>Agency Funds</u>
<b>ASSETS</b>	
Deposits and investments	\$ 279,995
Stores inventories	6,623
<b>Total Assets</b>	<u>\$ 286,618</u>
 <b>LIABILITIES</b>	
Due to student groups	<u>\$ 286,618</u>

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

# MORONGO UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Financial Reporting Entity

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

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments, boards, and agencies that are not legally separate from the District. For Morongo Unified School District, this includes general operations, food service, and student related activities of the District.

#### Basis of Presentation - Fund Accounting

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

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

#### Major Governmental Funds

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

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

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

# MORONGO UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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### 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).

**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).

**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.

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

# MORONGO UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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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.

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

# MORONGO UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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**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.

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



# MORONGO UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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### **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, 2016, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost.

### **Prepaid Expenditures**

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

### **Stores Inventories**

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

### **Capital Assets and Depreciation**

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

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

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

# MORONGO UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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### **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.

### **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.

# MORONGO UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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### 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 pension related items.

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 pension related items.

### 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, 2016, fund balances of the governmental funds are classified as follows:

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

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

**Committed** - amounts that can be used only for specific purposes determined by a formal action of the governing board. The governing board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through resolutions or other action as approved by the governing board. The District had no committed fund balances at June 30, 2016.

**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.

# MORONGO UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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### **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 \$12,864,444 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.

### **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.

# MORONGO UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2016**

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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 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 District has implemented the provisions of this Statement as of June 30, 2016.

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 provisions in this Statement effective as of June 30, 2016, include the provisions for assets accumulated for purposes of providing pensions through defined benefit plans and the amended provisions of Statements No. 67 and No. 68. The District has implemented these provisions as of June 30, 2016. The provisions in this Statement related to defined benefit pensions that are not within the scope of Statement No. 68 are effective for periods beginning after June 15, 2016.

# MORONGO UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2016**

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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 non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

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

The District has implemented the provisions of this Statement as of June 30, 2016.

In December 2015, the GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant.

If an external investment pool does not meet the criteria established by this Statement, that pool should apply the provisions in paragraph 16 of Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended. If an external investment pool meets the criteria in this Statement and measures all of its investments at amortized cost, the pool's participants also should measure their investments in that external investment pool at amortized cost for financial reporting purposes. If an external investment pool does not meet the criteria in this Statement, the pool's participants should measure their investments in that pool at fair value, as provided in paragraph 11 of Statement No. 31, as amended.

This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals.

The District has implemented the provisions of this Statement as of June 30, 2016.

# MORONGO UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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### New Accounting Pronouncements

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 inter-period 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*.

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

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*. This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients
- The gross dollar amount of taxes abated during the period
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement

# MORONGO UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2016**

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

In December 2015, the GASB issued Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions.

Prior to the issuance of this Statement, the requirements of Statement No. 68 applied to the financial statements of all state and local governmental employers whose employees are provided with pensions through pension plans that are administered through trusts that meet the criteria in paragraph 4 of that Statement.

This Statement amends the scope and applicability of Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. Early implementation is encouraged.

In January 2016, the GASB issued Statement No. 80, *Blending Requirements for Certain Component Units - amendment of GASB Statement No. 14*. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended*. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*.

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

In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.



# MORONGO UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2016**

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This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively. Early implementation is encouraged.

In March 2016, the GASB issued Statement No. 82, *Pension Issues - An Amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Early implementation is encouraged.

# MORONGO UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

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### NOTE 2 - DEPOSITS AND INVESTMENTS

#### Summary of Deposits and Investments

Deposits and investments as of June 30, 2016, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 37,789,588
Fiduciary funds	279,995
Total Deposits and Investments	<u>\$ 38,069,583</u>

Deposits and investments as of June 30, 2016, consist of the following:

Cash on hand and in banks	\$ 629,887
Cash in revolving	35,050
Investments	37,404,646
Total Deposits and Investments	<u>\$ 38,069,583</u>

#### Policies and Practices

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

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

# MORONGO UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

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### General Authorizations

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

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

### Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District 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, 2016

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### Specific Identification

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted-Average Days to Maturity</u>
San Bernardino County Investment Pool	<u>\$ 37,405,581</u>	311

### Credit Risk

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

<u>Investment Type</u>	<u>Minimum Legal Rating</u>	<u>Rating June 30, 2016</u>	<u>Fair Value</u>
San Bernardino County Investment Pool	Not Required	AAA/V1	<u>\$ 37,405,581</u>

### Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. As of June 30, 2016, the District's bank balance was fully insured.

# MORONGO UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2016**

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### NOTE 3 - FAIR VALUE MEASUREMENTS

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

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

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

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

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

The District's fair value measurements are as follows at June 30, 2016:

Investment Type	Fair Value	Fair Value Measurements Using			Uncategorized
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	
County Pool	\$ 37,405,581	\$ -	\$ -	\$ -	\$ 37,405,581

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

# MORONGO UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

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### NOTE 4 - RECEIVABLES

Receivables at June 30, 2016, consisted of intergovernmental grants, entitlements, interest, and other local sources. All receivables are considered collectible in full.

	General Fund	Building Fund	Capital Facilities Fund	Non-Major Governmental Funds	Internal Service Fund	Total Governmental Activities
Federal Government						
Categorical aid	\$ 2,527,562	\$ -	\$ -	\$ 443,416	\$ -	\$ 2,970,978
State Government						
Categorical aid	583,434	-	-	35,544	-	618,978
Lottery	498,751	-	-	-	-	498,751
Local Government						
Interest	38,942	3,628	17,117	250	1,443	61,380
Other Local Sources	625,831	-	267,586	12,765	-	906,182
Total	<u>\$ 4,274,520</u>	<u>\$ 3,628</u>	<u>\$ 284,703</u>	<u>\$ 491,975</u>	<u>\$ 1,443</u>	<u>\$ 5,056,269</u>

**MORONGO UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2016**

**NOTE 5 - CAPITAL ASSETS**

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

	Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016
<b>Governmental Activities</b>				
Capital Assets Not Being Depreciated				
Land	\$ 1,958,169	\$ -	\$ -	\$ 1,958,169
Construction in process	14,623,141	6,240,998	63,235	20,800,904
Total Capital Assets Not Being Depreciated	16,581,310	6,240,998	63,235	22,759,073
Capital Assets Being Depreciated				
Land improvements	16,528,470	117,374	-	16,645,844
Buildings and improvements	90,038,813	128,317	-	90,167,130
Furniture and equipment	10,747,618	126,561	71,077	10,803,102
Total Capital Assets Being Depreciated	117,314,901	372,252	71,077	117,616,076
Less Accumulated Depreciation				
Land improvements	9,841,628	308,894	-	10,150,522
Buildings and improvements	33,705,430	1,991,861	-	35,697,291
Furniture and equipment	8,116,134	723,811	68,781	8,771,164
Total Accumulated Depreciation	51,663,192	3,024,566	68,781	54,618,977
Governmental Activities Capital Assets, Net	\$ 82,233,019	\$ 3,588,684	\$ 65,531	\$ 85,756,172

Depreciation expense was charged to governmental functions as follows:

<b>Governmental Activities</b>	
Instruction	\$ 2,192,712
Supervision of instruction	10,609
Instructional library, media, and technology	40,844
School site administration	81,628
Home-to-school transportation	2,205
Food services	117,829
Ancillary services	5,129
All other pupil services	191
Other general administration	86,393
Data processing	433,468
Plant services	53,558
Total Depreciation Expenses Governmental Activities	\$ 3,024,566

**MORONGO UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

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**NOTE 6 - 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, 2016, 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>Non-Major</u> <u>Governmental</u> <u>Funds</u>
General Fund	\$ 682,890

The balance of \$682,890 is due to the General Fund from the Cafeteria Non-Major Governmental Fund for payroll and operating expenses.

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

**NOTE 7 - ACCOUNTS PAYABLE**

Accounts payable at June 30, 2016, consisted of the following:

	<u>General</u> <u>Fund</u>	<u>Building</u> <u>Fund</u>	<u>Capital</u> <u>Facilities</u> <u>Fund</u>	<u>Non-Major</u> <u>Governmental</u> <u>Funds</u>	<u>Total</u> <u>Governmental</u> <u>Activities</u>
Vendor payables	\$ 3,974,111	\$ 73,586	\$ 827,320	\$ 1,979	\$ 4,876,996
State principal apportionment	1,591,076	-	-	-	1,591,076
Salaries and benefits	4,056,228	-	-	-	4,056,228
Construction	-	99,000	2,358	-	101,358
Total	<u>\$ 9,621,415</u>	<u>\$ 172,586</u>	<u>\$ 829,678</u>	<u>\$ 1,979</u>	<u>\$ 10,625,658</u>



**MORONGO UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

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**NOTE 8 - UNEARNED REVENUE**

Unearned revenue at June 30, 2016, consists of the following:

	Non-Major Governmental Funds
Federal financial assistance	<u>\$ 38,375</u>

**NOTE 9 - LONG-TERM OBLIGATIONS**

**Summary**

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

	Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016	Due in One Year
General obligation bonds payable	\$ 46,383,623	\$ 731,106	\$ 490,000	\$ 46,624,729	\$ 572,887
Premium on issuance	382,616	-	23,914	358,702	-
Supplemental Early Retirement Program (SERP)	1,143,285	-	571,644	571,641	571,641
Compensated absences	422,276	12,734	-	435,010	-
Net OPEB obligation	236,317	194,107	108,385	322,039	-
	<u>\$ 48,568,117</u>	<u>\$ 937,947</u>	<u>\$ 1,193,943</u>	<u>\$ 48,312,121</u>	<u>\$ 1,144,528</u>

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

# MORONGO UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

### General Obligation Bonds

The general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds			Bonds	
				Outstanding July 1, 2015	Issued	Accreted	Redeemed	Outstanding June 30, 2016
6/12/08	8/1/38	4.00-5.25%	\$ 21,000,000	\$ 19,435,000	\$ -	\$ -	\$ 195,000	\$ 19,240,000
3/29/12	8/1/42	4.34-12.00%	17,147,652	19,218,623	-	731,106	45,000	19,904,729
11/29/12	8/1/30	2.00-5.00%	7,935,000	7,730,000	-	-	250,000	7,480,000
			<u>\$ 46,082,652</u>	<u>\$ 46,383,623</u>	<u>\$ -</u>	<u>\$ 731,106</u>	<u>\$ 490,000</u>	<u>\$ 46,624,729</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, 2016, the principal balance outstanding was \$19,240,000.

The bonds mature as follows:

Fiscal Year	Principal	Interest to Maturity	Total
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	230,000	924,454	1,154,454
2022-2026	1,810,000	4,423,346	6,233,346
2027-2031	3,680,000	3,846,700	7,526,700
2032-2036	7,975,000	2,349,163	10,324,163
2037-2039	4,770,000	301,613	5,071,613
Total	<u>\$ 19,240,000</u>	<u>\$ 15,622,252</u>	<u>\$ 34,862,252</u>

# MORONGO UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

### 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, 2016, the principal balance outstanding was \$19,904,729.

The bonds mature as follows:

Fiscal Year	2005 Current Interest Bonds		Capital Appreciation Bonds	
	Principal	Interest	Principal	Future Interest Accretion
2017	\$ -	\$ 304,013	\$ 92,887	\$ 2,113
2018	-	304,013	130,531	19,469
2019	-	304,013	212,981	62,019
2020	-	304,013	206,782	93,218
2021	-	304,013	205,507	129,493
2022-2026	-	1,520,063	1,394,230	835,770
2027-2031	-	1,520,063	692,122	857,878
2032-2036	-	1,520,063	1,867,910	3,602,090
2037-2041	2,100,000	1,520,063	1,470,350	4,099,650
2042-2043	5,270,000	217,388	-	-
Total	<u>\$ 7,370,000</u>	<u>\$ 7,817,705</u>	<u>\$ 6,273,300</u>	<u>\$ 9,701,700</u>

Convertible Capital Appreciation Bonds			Total Principal and Interest		
Principal	Future Interest Accretion	Interest	Principal	Future Interest Accretion	Interest
\$ -	\$ -	\$ -	\$ 92,887	\$ 2,113	\$ 304,013
-	-	-	130,531	19,469	304,013
-	-	-	212,981	62,019	304,013
-	-	-	206,782	93,218	304,013
-	-	-	205,507	129,493	304,013
-	-	565,400	1,394,230	835,770	2,085,463
-	-	2,827,000	692,122	857,878	4,347,063
-	-	2,827,000	1,867,910	3,602,090	4,347,063
6,261,429	4,018,571	2,240,700	9,831,779	8,118,221	3,760,763
-	-	-	5,270,000	-	217,388
<u>\$ 6,261,429</u>	<u>\$ 4,018,571</u>	<u>\$ 8,460,100</u>	<u>\$ 19,904,729</u>	<u>\$ 13,720,271</u>	<u>\$ 16,277,805</u>

# MORONGO UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2016**

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### 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 were redeemed at the redemption price for all future debt service payments. As a result, this portion of the 2005 Series A bonds were considered to be defeased and the liability for those bonds has been removed from the District's long term obligations. The bonds mature on August 1, 2030, with interest rates ranging from 2.00 to 5.00 percent. At June 30, 2016, the principal balance outstanding was \$7,480,000.

The bonds mature as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
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	400,000	199,075	599,075
2022-2026	2,625,000	759,250	3,384,250
2027-2031	3,165,000	201,375	3,366,375
Total	<u>\$ 7,480,000</u>	<u>\$ 2,044,650</u>	<u>\$ 9,524,650</u>

### 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, 2016, is \$571,641.

# MORONGO UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

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Future payments are as follows:

Year Ending	Amount
<u>June 30,</u>	
2017	<u>\$ 571,641</u>

### **Accumulated Unpaid Employee Vacation**

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2016, amounted to \$435,010.

### **Other Postemployment Benefits (OPEB) Obligation**

The District's annual required contribution for the year ended June 30, 2016, was \$183,473, and contributions made by the District during the year were \$97,691. Interest on the net OPEB obligation and adjustments to the annual required contribution were \$10,634 and (\$10,694), respectively, which resulted in an increase to the net OPEB obligation of \$85,722. As of June 30, 2016, the net OPEB obligation was \$322,039. See Note 12 for additional information regarding the OPEB obligation and the postemployment benefits plan.

**MORONGO UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 10 - FUND BALANCES**

Fund balances are composed of the following elements:

	General Fund	Building Fund	Capital Facilities Fund	Non-Major Governmental Funds	Total
<b>Nonspendable</b>					
Revolving cash	\$ 35,000	\$ -	\$ -	\$ 50	\$ 35,050
Stores inventories	26,036	-	-	75,782	101,818
Prepaid expenditures	9,517	-	-	-	9,517
<b>Total Nonspendable</b>	<b>70,553</b>	<b>-</b>	<b>-</b>	<b>75,832</b>	<b>146,385</b>
<b>Restricted</b>					
Legally restricted programs	2,900,993	-	-	118,371	3,019,364
Capital projects	-	1,579,539	8,112,843	141,303	9,833,685
Debt services	-	-	-	2,309,542	2,309,542
<b>Total Restricted</b>	<b>2,900,993</b>	<b>1,579,539</b>	<b>8,112,843</b>	<b>2,569,216</b>	<b>15,162,591</b>
<b>Committed</b>					
Other committed	-	-	-	-	-
<b>Assigned</b>					
3% Salary increase	3,184,717	-	-	-	3,184,717
MTA H&W reserve	145,886	-	-	-	145,886
MBG1-X music reserve	67,500	-	-	-	67,500
MBG1-X IT infrastructure reserve	223,779	-	-	-	223,779
Site discretionary	106,088	-	-	-	106,088
Site donations	26,059	-	-	-	26,059
Lottery reserve	290,854	-	-	-	290,854
Deferred maintenance reserve	502,469	-	-	-	502,469
H&W 1X (1200)	807,600	-	-	-	807,600
Site LCAP	27,123	-	-	-	27,123
Instructional Service LCAP	230,813	-	-	-	230,813
Other assignments	7,640,814	-	-	-	7,640,814
<b>Total Assigned</b>	<b>13,253,702</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>13,253,702</b>
<b>Unassigned</b>					
Economic uncertainties	2,623,243	-	-	-	2,623,243
Remaining unassigned	290,962	-	-	-	290,962
<b>Total Unassigned</b>	<b>2,914,205</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,914,205</b>
<b>Total</b>	<b>\$ 19,139,453</b>	<b>\$ 1,579,539</b>	<b>\$ 8,112,843</b>	<b>\$ 2,645,048</b>	<b>\$ 31,476,883</b>

# MORONGO UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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### NOTE 11 - 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 15 - 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, 2016.

### NOTE 12 - 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 2015-2016, the actuarially determined amount contributed by the District as an implicit rate subsidy to current retirees was \$97,691.

# MORONGO UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

### 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	10,634
Adjustment to annual required contribution	<u>(10,694)</u>
Annual OPEB cost (expense)	183,413
Contributions made	<u>(97,691)</u>
Increase in net OPEB obligation	85,722
Net OPEB obligation, beginning of year	<u>236,317</u>
Net OPEB obligation, end of year	<u><u>\$ 322,039</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
2014	\$ 153,339	\$ 124,584	81%	\$ 160,907
2015	183,433	108,023	59%	236,317
2016	183,413	97,691	53%	322,039

### 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, 2016**

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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, 2016, was 26 years. The actuarial value of assets was not determined in this actuarial valuation.

### NOTE 13 - 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).

For the fiscal year ended June 30, 2016, the District reported net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense for each of the above plans as follows:

Pension Plan	Collective Net Pension Liability	Collective Deferred Outflows of Resources	Collective Deferred Inflows of Resources	Collective Pension Expense
CalSTRS	\$ 51,317,105	\$ 10,615,918	\$ 9,084,006	\$ 4,376,310
CalSTRS	13,222,512	4,371,107	3,436,835	1,473,118
Total	<u>\$ 64,539,617</u>	<u>\$ 14,987,025</u>	<u>\$ 12,520,841</u>	<u>\$ 5,849,428</u>

# MORONGO UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2016**

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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, 2014, 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.

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

# MORONGO UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

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The STRP provisions and benefits in effect at June 30, 2016, 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	9.20%	8.56%
Required employer contribution rate	10.73%	10.73%
Required State contribution rate	7.12589%	7.12589%

### 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, 2016, are presented above and the District's total contributions were \$4,020,003.

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

At June 30, 2016, 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	\$ 51,317,105
State's proportionate share of the net pension liability associated with the District	27,141,092
Total	<u>\$ 78,458,197</u>

The net pension liability was measured as of June 30, 2015. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. The District's proportionate share for the measurement period June 30, 2015 and June 30, 2014, respectively was 0.0762 percent and 0.0721 percent, resulting in a net increase in the proportionate share of 0.0041 percent.

# MORONGO UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

For the year ended June 30, 2016, the District recognized pension expense of \$4,376,310. In addition, the District recognized pension expense and revenue of \$2,102,382 for support provided by the State. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 4,020,003	\$ -
Net change in proportionate share of net pension liability	2,552,608	-
Difference between projected and actual earnings on pension plan investments	4,043,307	8,226,485
Difference between expected and actual experiences in the measurement of the total pension liability	-	857,521
Total	<u>\$ 10,615,918</u>	<u>\$ 9,084,006</u>

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year. The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows (Inflows) of Resources
2017	\$ (1,731,335)
2018	(1,731,335)
2019	(1,731,335)
2020	1,010,827
Total	<u>\$ (4,183,178)</u>

# MORONGO UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2016**

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The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability and differences between expected and actual experience in the measurement of the total pension liability will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the 2014-2015 measurement period is 7 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows (Inflows) of Resources
2017	\$ 282,515
2018	282,515
2019	282,515
2020	282,515
2021	282,515
Thereafter	282,512
Total	<u>\$ 1,695,087</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, 2014, and rolling forward the total pension liability to June 30, 2015. The financial reporting actuarial valuation as of June 30, 2014, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2014
Measurement date	June 30, 2015
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%

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.

# MORONGO UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2016**

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's 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 independent from year to year to develop expected percentiles for the long-term distribution of annualized returns. The assumed asset allocation is based on Teachers' Retirement Board of the California State Teachers' Retirement System (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:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
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.

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

Discount Rate	Net Pension Liability
1% decrease (6.60%)	\$ 77,484,835
Current discount rate (7.60%)	51,317,105
1% increase (8.60%)	29,569,611

# MORONGO UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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### 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, 2014 annual actuarial valuation report, Schools Pool Actuarial Valuation, 2014. 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.

The CalPERS provisions and benefits in effect at June 30, 2016, 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	11.847%	11.847%

# MORONGO UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

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### 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, 2016, are presented above and the total District contributions were \$1,146,131.

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

As of June 30, 2016, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$13,222,512. The net pension liability was measured as of June 30, 2015. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2015 and June 30, 2014, respectively was 0.0897 percent and 0.0887 percent, resulting in a net increase in the proportionate share of 0.0010 percent.

For the year ended June 30, 2016, the District recognized pension expense of \$1,473,118. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 1,146,131	\$ -
Net change in proportionate share of net pension liability	297,633	-
Difference between projected and actual earnings on pension plan investments	2,171,657	2,624,407
Difference between expected and actual experiences in the measurement of the total pension liability	755,686	-
Changes of assumptions	-	812,428
Total	<u>\$ 4,371,107</u>	<u>\$ 3,436,835</u>



# MORONGO UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2016**

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The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year. The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows (Inflows) of Resources
2017	\$ (331,888)
2018	(331,888)
2019	(331,888)
2020	542,914
Total	<u>\$ (452,750)</u>

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, changes of assumptions, and differences between expected and actual experience in the measurement of the total pension liability will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the 2014-2015 measurement period is 3.9 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows (Inflows) of Resources
2017	\$ 112,034
2018	112,034
2019	16,823
Total	<u>\$ 240,891</u>

# MORONGO UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

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### 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, 2014, and rolling forward the total pension liability to June 30, 2015. The financial reporting actuarial valuation as of June 30, 2014, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2014
Measurement date	June 30, 2015
Experience study	July 1, 1997 through June 30, 2011
Actuarial cost method	Entry age normal
Discount rate	7.65%
Investment rate of return	7.65%
Consumer price inflation	2.75%
Wage growth	3.00% Varies by entry age and service

Mortality assumptions are based on mortality rates resulting from the most recent CalPERS experience study adopted by the CalPERS Board. For purposes of the post-retirement mortality rates, those revised rates include 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	51%	5.25%
Global fixed income	19%	0.99%
Private equity	10%	6.83%
Real estate	10%	4.50%
Inflation sensitive	6%	0.45%
Infrastructure and Forestland	2%	4.50%
Liquidity	2%	-0.55%

# MORONGO UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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### Discount Rate

The discount rate used to measure the total pension liability was 7.65 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 (6.65%)	\$ 21,520,739
Current discount rate (7.65%)	13,222,512
1% increase (8.65%)	6,321,981

### 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 \$571,644.

# MORONGO UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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### 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 \$2,517,563 (7.12589 percent of annual payroll). 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 not been included in the budget amounts reported in the *General Fund - Budgetary Comparison Schedule*.

### NOTE 14 - 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, 2016.

#### Litigation

The District is not currently a party to any legal proceedings

#### Construction Commitments

As of June 30, 2016, the District had the following commitments with respect to the unfinished capital projects:

Capital Projects	Remaining Construction Commitment	Expected Date of Completion
Oasis Modernization	\$ 427,302	2016
La Contenta Middle School, Twentynine Palms Junior High, and Yucca Valley High School Locker Project	1,365,200	2017
Yucca Mesa Elementary School HVAC and Lighting Project	744,320	2016
	<u>\$ 2,536,822</u>	

# MORONGO UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2016**

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### **NOTE 15 - 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, 2016, the District made payments of \$17,232,081, \$292,513, and \$2,370,871, to HDIEET/SCSEBA, SELF, and SCSRM, respectively.

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***REQUIRED SUPPLEMENTARY INFORMATION***

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**MORONGO UNIFIED SCHOOL DISTRICT**

**GENERAL FUND  
BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2016**

	<b>Budgeted Amounts</b>		<b>Actual (GAAP Basis)</b>	<b>Variances -</b>
	<b>Original</b>	<b>Final</b>		<b>Positive</b>
				<b>Final to Actual</b>
<b>REVENUES</b>				
Local Control Funding Formula	\$ 66,619,641	\$ 67,562,978	\$ 67,646,946	\$ 83,968
Federal sources	8,498,676	9,114,440	7,719,439	(1,395,001)
Other State sources	11,536,669	12,870,204	15,289,874	2,419,670
Other local sources	607,029	1,684,405	1,270,679	(413,726)
<b>Total Revenues<sup>1</sup></b>	<b>87,262,015</b>	<b>91,232,027</b>	<b>91,926,938</b>	<b>694,911</b>
<b>EXPENDITURES</b>				
Current				
Certificated salaries	38,222,492	39,454,354	37,513,093	1,941,261
Classified salaries	13,093,486	13,227,041	12,762,922	464,119
Employee benefits	18,356,745	17,435,564	19,161,936	(1,726,372)
Books and supplies	6,081,229	6,963,294	5,482,417	1,480,877
Services and operating expenditures	13,763,188	13,206,278	11,966,213	1,240,065
Capital Outlay	72,000	256,485	1,356,168	(1,099,683)
Other outgo	(96,762)	(26,769)	-	(26,769)
Debt service				
Principal	55,783	11,134	12,851	(1,717)
Interest	5,000	333	1,339	(1,006)
<b>Total Expenditures<sup>1</sup></b>	<b>89,553,161</b>	<b>90,527,714</b>	<b>88,256,939</b>	<b>2,270,775</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(2,291,146)</b>	<b>704,313</b>	<b>3,669,999</b>	<b>2,965,686</b>
<b>Fund Balance - Beginning</b>	<b>15,469,454</b>	<b>15,469,454</b>	<b>15,469,454</b>	<b>-</b>
<b>Fund Balance - Ending</b>	<b>\$ 13,178,308</b>	<b>\$ 16,173,767</b>	<b>\$ 19,139,453</b>	<b>\$ 2,965,686</b>

<sup>1</sup> On behalf payments of \$2,517,563 are included in the actual revenues and expenditures, but have not been included in the original budgeted amounts.

See accompanying notes to required supplementary information.

**MORONGO UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING  
PROGRESS  
FOR THE YEAR ENDED JUNE 30, 2016**

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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%

See accompanying notes to required supplementary information.



# MORONGO UNIFIED SCHOOL DISTRICT

## SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY FOR THE YEAR ENDED JUNE 30, 2016

	<u>2016</u>	<u>2015</u>
<b>CalSTRS</b>		
District's proportion of the net pension liability	<u>0.0762%</u>	<u>0.0721%</u>
District's proportionate share of the net pension liability	\$ 51,317,105	\$ 42,153,464
State's proportionate share of the net pension liability associated with the District	<u>27,141,092</u>	<u>25,454,081</u>
Total	<u>\$ 78,458,197</u>	<u>\$ 67,607,545</u>
District's covered - employee payroll	<u>\$ 45,270,304</u>	<u>\$ 38,178,242</u>
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	<u>113.36%</u>	<u>110.41%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>74%</u>	<u>77%</u>
<b>CalPERS</b>		
District's proportion of the net pension liability	<u>0.0897%</u>	<u>0.0887%</u>
District's proportionate share of the net pension liability	<u>\$ 13,222,512</u>	<u>\$ 10,072,581</u>
District's covered - employee payroll	<u>\$ 9,737,732</u>	<u>\$ 10,810,294</u>
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	<u>135.79%</u>	<u>93.18%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>79%</u>	<u>83%</u>

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

See accompanying notes to required supplementary information.

# MORONGO UNIFIED SCHOOL DISTRICT

## SCHEDULE OF DISTRICT CONTRIBUTIONS FOR THE YEAR ENDED JUNE 30, 2016

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	<u>2016</u>	<u>2015</u>
<b>CalSTRS</b>		
Contractually required contribution	\$ 4,020,003	\$ 3,149,705
Contributions in relation to the contractually required contribution	<u>4,020,003</u>	<u>3,149,705</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered - employee payroll	<u>\$ 37,465,079</u>	<u>\$ 35,469,651</u>
Contributions as a percentage of covered - employee payroll	<u>10.73%</u>	<u>8.88%</u>
 <b>CalPERS</b>		
Contractually required contribution	\$ 1,146,131	\$ 1,215,077
Contributions in relation to the contractually required contribution	<u>1,146,131</u>	<u>1,215,077</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered - employee payroll	<u>\$ 9,674,441</u>	<u>\$ 10,323,509</u>
Contributions as a percentage of covered - employee payroll	<u>11.85%</u>	<u>11.77%</u>

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

See accompanying notes to required supplementary information.

# MORONGO UNIFIED SCHOOL DISTRICT

## NOTES TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2016

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### NOTE 1 - PURPOSE OF SCHEDULES

#### **Budgetary Comparison Schedule**

This schedule presents information for the original and final budgets and actual results of operations, as well as the variances from the final budget to actual results of operations.

#### **Schedule of Other Postemployment Benefits (OPEB) Funding Progress**

This schedule is intended to show trends about the funding progress of the District's actuarially determined liability for postemployment benefits other than pensions.

#### **Schedule of the District's Proportionate Share of the Net Pension Liability**

This schedule presents information on the District's proportionate share of the net pension liability (NPL), the plans' fiduciary net position and, when applicable, the State's proportionate share of the NPL associated with the District. In the future, as data becomes available, ten years of information will be presented.

#### **Schedule of District Contributions**

This schedule presents information on the District's required contribution, the amounts actually contributed, and any excess or deficiency related to the required contribution. In the future, as data becomes available, ten years of information will be presented.

### NOTE 2 - CHANGES IN BENEFIT TERMS AND ASSUMPTIONS

#### **Changes in Benefit Terms**

There were no changes in benefit terms since the previous valuation for either CalSTRS or CalPERS.

#### **Changes in Assumptions**

The CalSTRS plan rate of investment return assumption was not changed from the previous valuation. The CalPERS plan rate of investment return assumption was changed from 7.50 percent to 7.65 percent since the previous valuation.

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*SUPPLEMENTARY INFORMATION*

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# MORONGO UNIFIED SCHOOL DISTRICT

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2016

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures	Passed Through To Subrecipients
<b>U.S. DEPARTMENT OF EDUCATION</b>				
Federal Impact Aid (ESEA, Title VIII)	84.041	10015	\$ 2,246,491	\$ -
Carl D. Perkins Vocational and Technical Education Act of 1998 Secondary Education (Section 131)	84.048	14894	97,851	-
No Child Left Behind Act (NCLB)				
Title I, Part A, Basic Grants Low Income and Neglected	84.010	14329	2,148,052	-
Title II, Part A, Improving Teacher Quality Local Grants	84.367	14341	552,176	7,620
Title III, Limited English Proficient (LEP) Student Program	84.365	14346	25,974	-
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	1,465,699	-
Preschool Grants, Part B, Section 619 (Age 3-4-5)	84.173	13430	129,870	-
Preschool Local Entitlement, Part B, Section 611 (Age 3-4-5)	84.027A	13682	141,404	-
Mental Health Allocation Plan, Part B, Section 611	84.027A	14468	147,523	-
Preschool Staff Development, Part B, Section 619	84.173A	13431	665	-
Total Special Education (IDEA) Cluster			<u>1,885,161</u>	<u>-</u>
Early Intervention Grants, Part C	84.181	23761	55,560	-
Passed through California Department of Rehabilitation				
Workability II, Transitions Partnership	84.126	10006	173,627	-
Total U.S. Department of Education			<u>7,184,892</u>	<u>7,620</u>

See accompanying note to supplementary information.

**MORONGO UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)  
FOR THE YEAR ENDED JUNE 30, 2016**

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures	Passed Through To Subrecipients
<b>U.S. DEPARTMENT OF AGRICULTURE</b>				
Passed through California Department of Education (CDE):				
Child Nutrition Cluster:				
Especially Needy Breakfast	10.553	13526	\$ 638,228	\$ -
National School Lunch Program	10.555	13524	2,189,834	-
Meal Supplement	10.555	13396	49,685	-
Summer Food Service Program	10.559	13004	30,386	-
Food Distribution	10.555	13524	144,243	-
Total U.S. Department of Agriculture			3,052,376	-
<b>U.S. DEPARTMENT OF DEFENSE</b>				
Department of Defense Education Activity	12.030	[1]	368,779	-
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>				
Passed through California Department of Health Services:				
Medicaid Cluster:				
Medi-Cal Billing Option	93.778	10013	92,861	-
Medical Administrative Activities Program	93.778	10060	72,907	-
Total U.S. Department of Health and Human Services			165,768	-
Total Expenditures of Federal Awards			\$ 10,771,815	\$ 7,620

[1] Direct-funded; no PCA number

See accompanying note to supplementary information.

# MORONGO UNIFIED SCHOOL DISTRICT

## LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2016

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### ORGANIZATION

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

### GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Chris Proudfoot	President	2016
Karalee Hargrove	Member	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, 2016**

	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Transitional kindergarten through third	2,719.72	2,713.14
Fourth through sixth	1,854.72	1,852.69
Seventh and eighth	1,103.25	1,098.64
Ninth through twelfth	2,062.10	2,045.52
Total Regular ADA	<u>7,739.79</u>	<u>7,709.99</u>
Extended Year Special Education		
Transitional kindergarten through third	4.12	4.12
Fourth through sixth	2.50	2.50
Seventh and eighth	1.06	1.06
Ninth through twelfth	3.47	3.47
Total Extended Year Special Education	<u>11.15</u>	<u>11.15</u>
Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	7.74	7.60
Fourth through sixth	7.50	7.07
Seventh and eighth	3.57	3.52
Ninth through twelfth	9.67	8.97
Total Special Education, Nonpublic, Nonsectarian Schools	<u>28.48</u>	<u>27.16</u>
Extended Year Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	0.33	0.33
Fourth through sixth	0.79	0.79
Seventh and eighth	0.56	0.56
Ninth through twelfth	1.13	1.13
Total Extended Year Special Education, Nonpublic, Nonsectarian Schools	<u>2.81</u>	<u>2.81</u>
Total ADA	<u><u>7,782.23</u></u>	<u><u>7,751.11</u></u>

See accompanying note to supplementary information.



# MORONGO UNIFIED SCHOOL DISTRICT

## SCHEDULE OF INSTRUCTIONAL TIME FOR THE YEAR ENDED JUNE 30, 2016

Grade Level	1986-87	2015-16	Number of Days		Status
	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Kindergarten	36,000	55,300	180	N/A	Complied
Grades 1 - 3	50,400				
Grade 1		52,575	180	N/A	Complied
Grade 2		52,575	180	N/A	Complied
Grade 3		52,650	180	N/A	Complied
Grades 4 - 6	54,000				
Grade 4		54,350	180	N/A	Complied
Grade 5		54,400	180	N/A	Complied
Grade 6		54,400	180	N/A	Complied
Grades 7 - 8	54,000				
Grade 7		65,625	180	N/A	Complied
Grade 8		65,625	180	N/A	Complied
Grades 9 - 12	64,800				
Grade 9		65,105	180	N/A	Complied
Grade 10		65,105	180	N/A	Complied
Grade 11		65,105	180	N/A	Complied
Grade 12		65,105	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, 2016**

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There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2016.

See accompanying note to supplementary information.

# MORONGO UNIFIED SCHOOL DISTRICT

## SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2016

	(Budget) 2017 <sup>1</sup>	2016	2015	2014
<b>GENERAL FUND</b>				
Revenues and other sources	\$ 88,960,037	\$ 91,926,938	\$ 81,022,019	\$ 74,307,886
Expenditures	91,040,690	88,256,939	85,563,311	77,191,375
Other uses and transfers out	-	-	64,000	10,738
Total Expenditures and Other Uses	91,040,690	88,256,939	85,627,311	77,202,113
<b>INCREASE (DECREASE) IN FUND BALANCE</b>	\$ (2,080,653)	\$ 3,669,999	\$ (4,605,292)	\$ (2,894,227)
<b>ENDING FUND BALANCE</b>	\$ 17,058,800	\$ 19,139,453	\$ 15,469,454	\$ 20,074,746
<b>AVAILABLE RESERVES<sup>2</sup></b>	\$ 2,731,221	\$ 2,914,205	\$ 9,418,995	\$ 7,390,288
<b>AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO<sup>3</sup></b>	3.0%	3.3%	11.2%	9.8%
<b>LONG-TERM OBLIGATIONS</b>	N/A	\$ 48,312,121	\$ 48,568,117	\$ 48,754,920
<b>K-12 AVERAGE DAILY ATTENDANCE AT P-2</b>	7,665	7,782	7,737	8,015

The General Fund balance has decreased by \$935,293 over the past two years. The fiscal year 2016-2017 budget projects a further decrease of \$2,080,653 (10.87 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 2016-2017 fiscal year. Total long-term obligations have decreased by \$442,799 over the past two years.

Average daily attendance has decreased by 233 over the past two years. Additional decline of 117 ADA is anticipated during fiscal year 2016-2017.

<sup>1</sup> Budget 2017 is included for analytical purposes only and has not been subjected to audit.

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

<sup>3</sup> On behalf payments of \$1,834,522 and \$1,755,203, have been excluded from the calculation of available reserves for the fiscal years ending June 30, 2015 and 2014, respectively.

See accompanying note to supplementary information.

**MORONGO UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF CHARTER SCHOOLS  
FOR THE YEAR ENDED JUNE 30, 2016**

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<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, 2016**

	<b>Cafeteria Fund</b>	<b>County School Facilities Fund</b>	<b>Bond Interest and Redemption Fund</b>	<b>Non-Major Governmental Funds</b>
<b>ASSETS</b>				
Deposits and investments	\$ 349,942	\$ 141,053	\$ 2,309,542	\$ 2,800,537
Receivables	491,725	250	-	491,975
Stores inventories	75,780	-	-	75,780
<b>Total Assets</b>	<b>\$ 917,447</b>	<b>\$ 141,303</b>	<b>\$ 2,309,542</b>	<b>\$ 3,368,292</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 1,979	\$ -	\$ -	\$ 1,979
Due to other funds	682,890	-	-	682,890
Unearned revenue	38,375	-	-	38,375
<b>Total Liabilities</b>	<b>723,244</b>	<b>-</b>	<b>-</b>	<b>723,244</b>
<b>Fund Balances:</b>				
Nonspendable	75,832	-	-	75,832
Restricted	118,371	141,303	2,309,542	2,569,216
<b>Total Fund Balances</b>	<b>194,203</b>	<b>141,303</b>	<b>2,309,542</b>	<b>2,645,048</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 917,447</b>	<b>\$ 141,303</b>	<b>\$ 2,309,542</b>	<b>\$ 3,368,292</b>

See accompanying note to supplementary information.

**MORONGO UNIFIED SCHOOL DISTRICT**

**NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2016**

	<b>Cafeteria Fund</b>	<b>County School Facilities Fund</b>	<b>Bond Interest and Redemption Fund</b>	<b>Non-Major Governmental Funds</b>
<b>REVENUES</b>				
Federal sources	\$ 3,052,376	\$ -	\$ -	\$ 3,052,376
Other State sources	232,224	-	32,612	264,836
Other local sources	611,895	792	1,960,454	2,573,141
<b>Total Revenues</b>	<u>3,896,495</u>	<u>792</u>	<u>1,993,066</u>	<u>5,890,353</u>
<b>EXPENDITURES</b>				
Current				
Pupil services:				
Food services	3,667,058	-	-	3,667,058
Administration:				
All other administration	102,290	-	-	102,290
Plant services	9,104	-	-	9,104
Debt service				
Principal	-	-	475,613	475,613
Interest and other	-	-	1,525,143	1,525,143
<b>Total Expenditures</b>	<u>3,778,452</u>	<u>-</u>	<u>2,000,756</u>	<u>5,779,208</u>
<b>NET CHANGE IN FUND BALANCES</b>	118,043	792	(7,690)	111,145
<b>Fund Balances - Beginning</b>	76,160	140,511	2,317,232	2,533,903
<b>Fund Balances - Ending</b>	<u>\$ 194,203</u>	<u>\$ 141,303</u>	<u>\$ 2,309,542</u>	<u>\$ 2,645,048</u>

See accompanying note to supplementary information.

# MORONGO UNIFIED SCHOOL DISTRICT

## NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2016

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### 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 Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. The District has not elected to use the ten percent de minimis cost rate as covered in Section 200.414 Indirect (F&A) costs of the Uniform Guidance.

#### **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.

#### **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.

# MORONGO UNIFIED SCHOOL DISTRICT

## NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2016

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### **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.



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***INDEPENDENT AUDITOR'S REPORTS***

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

Governing Board  
Morongo Unified School District  
Twentynine Palms, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Morongo Unified School District (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Morongo Unified School District's basic financial statements, and have issued our report thereon dated December 7, 2016.

**Internal Control Over Financial Reporting**

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

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

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

## **Compliance and Other Matters**

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

## **Purpose of This Report**

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

Vavrinek, Trine, Day & Co. LLP

Rancho Cucamonga, California  
December 7, 2016



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

Governing Board  
Morongo Unified School District  
Twentynine Palms, California

**Report on Compliance for Each Major Federal Program**

We have audited Morongo Unified School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Morongo Unified School District's (the District) major Federal programs for the year ended June 30, 2016. Morongo Unified School District's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its Federal awards applicable to its Federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Morongo Unified School District's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about Morongo Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

### ***Opinion on Each Major Federal Program***

In our opinion, Morongo Unified School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2016.

### **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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Vavrinek, Trine, Day & Co. LLP*

Rancho Cucamonga, California  
December 7, 2016



## INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board  
Morongo Unified School District  
Twenty-nine Palms, California

### Report on State Compliance

We have audited Morongo Unified School District's compliance with the types of compliance requirements as identified in the *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* that could have a direct and material effect on each of the Morongo Unified School District's State government programs as noted below for the year ended June 30, 2016.

### Management's Responsibility

Management is responsible for compliance with the requirements of State laws, regulations, and the terms and conditions of its State awards applicable to its State programs.

### Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the Morongo Unified School District's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about Morongo Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of Morongo Unified School District's compliance with those requirements.

### Unmodified Opinion

In our opinion, Morongo Unified School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2016.

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:

	Procedures Performed
<b>LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS:</b>	
Attendance	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
<b>SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS:</b>	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After School Education and Safety Program:	
General Requirements	Yes
After School	Yes
Before School	No, see below
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Independent Study - Course Based	No, see below
Immunizations	Yes, see below
<b>CHARTER SCHOOLS:</b>	
Contemporaneous Records of Attendance	No, see below
Mode of Instruction	No, see below
Non Classroom-Based Instruction/Independent Study for Charter Schools	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 did not offer an Early Retirement Incentive Program during the current year; 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 offer a Middle or Early College High Schools Program; therefore, we did not perform procedures related to the Middle or Early College High Schools Program.

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 offer an Independent Study - Course Based Program; therefore, we did not perform any related procedures.

The District did not have any schools listed on the immunization assessment reports; therefore, we did not perform any related procedures.

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 7, 2016



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***SCHEDULE OF FINDINGS AND QUESTIONED COSTS***

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**MORONGO UNIFIED SCHOOL DISTRICT**

**SUMMARY OF AUDITOR'S RESULTS  
FOR THE YEAR ENDED JUNE 30, 2016**

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**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 Uniform Guidance?	<u>No</u>

Identification of major Federal programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>84.010</u>	<u>Title I, Part A, Basic Grants Low-Income and Neglected</u>
<u>84.041</u>	<u>Federal Impact Aid (ESEA, Title VIII)</u>

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

**STATE AWARDS**

Type of 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, 2016**

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None reported.

**MORONGO UNIFIED SCHOOL DISTRICT**

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2016**

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None reported.

**MORONGO UNIFIED SCHOOL DISTRICT**

**STATE AWARDS FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2016**

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None reported.

**MORONGO UNIFIED SCHOOL DISTRICT**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2016**

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