MORONGO UNIFIED SCHOOL DISTRICT

AUDIT REPORT

For the Fiscal Year Ended June 30, 2017

MORONGO UNIFIED SCHOOL DISTRICT
For the Fiscal Year Ended June 30, 2017
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NIGRO & NIGRO PC
A Professional Accountancy Corporation

INDEPENDENT AUDITORS' REPORT

Board of Education
Morongo Unified School District
Twentynine Palms, California

Report on the Financial Statements
We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Morongo Unified School District, as of and for the fiscal year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

Auditors' Responsibility
Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting.* Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Morongo Unified School District, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Jeff Nigro, CPA, CFE | Elizabeth Nigro, CPA | CJ Gaunder Singh, CPA | Kevin Brejnak, CPA, CFE

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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 12, budgetary comparison information on page 49, schedule of funding progress on page 50, schedule of proportionate share of the net pension liability on page 51, and schedule of pension contributions on page 52 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements. The supplementary information on pages 56 to 59 and the schedule of expenditures of federal awards on page 60 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole. The information on page 55 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated December 11, 2017, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Nigro & Nigro, PC

Murrieta, California
December 11, 2017

This discussion and analysis of Morongo Unified School District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2017. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- The District's financial status decreased overall as a result of this year's operations. Net position of governmental activities decreased by $4.6 million.
- Governmental expenses were about $108.6 million. Revenues were about $104.0 million.
- The District acquired over $3.0 million in new capital assets during the year. These expenditures were incurred primarily from modernization and expansion at Oasis Elementary School.
- The District increased its outstanding long-term debt by $2.7 million. This was primarily due to offering a new early retirement incentive.
- Grades K-12 average daily attendance (ADA) increased by 203, or 2.6%.

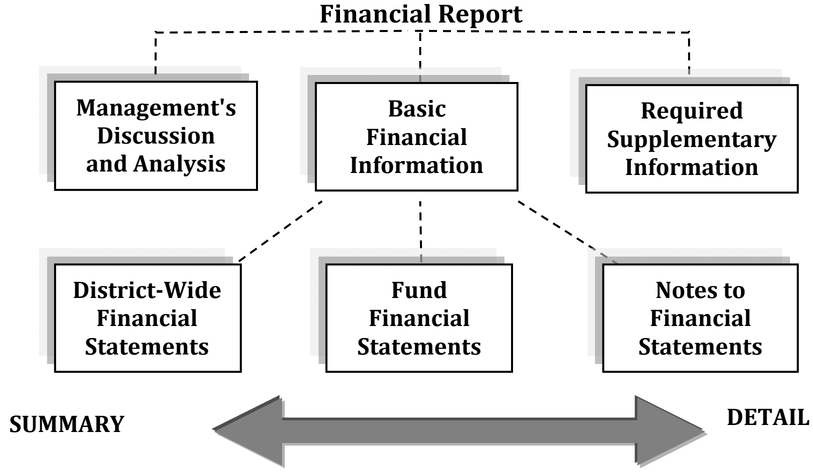
OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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



OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

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

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

Type of Statements	District-Wide	Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District, except fiduciary activities	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities of the District that operate like a business, such as self-insurance funds	Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	• Statement of Net Position • Statement of Activities	• Balance Sheet • Statement of Revenues, Expenditures & Changes in Fund Balances	• Statement of Net Position • Statement of Revenues, Expenses, & Changes in Net Position • Statement of Cash Flows	• Statement of Fiduciary Net Position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both short-term and long-term; The District's funds do not currently contain nonfinancial assets, though they can	All assets and liabilities, both short-term and long-term; The District's funds do not currently contain nonfinancial assets, though they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during the year, regardless of when cash is received or paid

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

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

District-Wide Statements

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the District's net position and how it has changed. Net position – the difference between the District's assets and deferred outflows of resources and liabilities and deferred inflows of resources – is one way to measure the District's financial health, or *position*.

- Over time, increases and decreases in the District's net position are an indicator of whether its financial position is improving or deteriorating, respectively.

- To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's demographics and the condition of school buildings and other facilities.

- In the district-wide financial statements, the District's activities are categorized as *Governmental Activities*. Most of the District's basic services are included here, such as regular and special education, transportation, and administration. Property taxes and state aid finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.

- The District establishes other funds to control and manage money for particular purposes (like repaying its long-term debt) or to show that is properly using certain revenues.

The District has three kinds of funds:

1) ***Governmental funds*** – Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information on a separate reconciliation page that explains the relationship (or differences) between them.

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

Fund Financial Statements (continued)

2) ***Proprietary funds*** – When the District charges other District funds for the services it provides, these services are reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and Statement of Activities. In fact, the District's internal service fund is included within the governmental activities reported in the district-wide statements but provide more detail and additional information, such as cash flows. The District uses the internal service fund to report activities that relate to the District's self-insured activities.

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

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position. The District's combined net position was lower on June 30, 2017, than it was the year before – decreasing to $1.5 million (See Table A-1).

Table A-1: Statement of Net Position

	Governmental Activities		Variance
	2017	**2016***	**Increase (Decrease)**
Assets			
Current assets	$ 40,272,063	$ 42,957,190	$ (2,685,127)
Capital assets	85,421,392	85,756,172	(334,780)
Total assets	125,693,455	128,713,362	(3,019,907)
Deferred outflows of resources	20,055,157	14,987,025	5,068,132
Liabilities			
Current liabilities	10,687,929	11,289,515	(601,586)
Long-term liabilities	50,475,717	49,285,599	1,190,118
Net pension liability	79,323,616	64,539,617	14,783,999
Total liabilities	140,487,262	125,114,731	15,372,531
Deferred inflows of resources	3,799,060	12,520,841	(8,721,781)
Net position			
Net investment in capital assets	40,993,829	40,278,866	714,963
Restricted	14,328,785	12,864,444	1,464,341
Unrestricted	(53,860,324)	(47,078,495)	(6,781,829)
Total net position	$ 1,462,290	$ 6,064,815	$ (4,602,525)

**As restated*

Changes in net position, governmental activities. The District's total revenues increased 5.9% to $104.0 million (See Table A-2). The increase is due primarily to an increase in operating grants and federal and state aid.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (continued)

The total cost of all programs and services increased 12.5% to $108.6 million. The District's expenses are predominantly related to educating and caring for students, 78.9%. The purely administrative activities of the District accounted for just 8.1% of total costs. A significant contributor to the increase in costs was negotiated salary increases.

Table A-2: Statement of Activities

	Governmental Activities 2017	Governmental Activities 2016	Variance Increase (Decrease)
Revenues			
Program Revenues:			
Charges for services	$ 1,420,944	$ 706,051	$ 714,893
Operating grants and contributions	20,219,182	17,316,528	2,902,654
Capital grants and contributions	1,214	792	422
General Revenues:			
Federal and state aid not restricted	70,720,163	68,727,881	1,992,282
Property taxes	10,308,711	8,064,933	2,243,778
Other general revenues	1,358,104	3,392,245	(2,034,141)
Total Revenues	104,028,318	98,208,430	5,819,888
Expenses			
Instruction-related	71,453,839	65,156,796	6,297,043
Pupil services	14,249,121	12,179,463	2,069,658
Administration	8,844,362	5,811,594	3,032,768
Plant services	11,187,640	11,011,021	176,619
All other activities	2,895,881	2,390,522	505,359
Total Expenses	108,630,843	96,549,396	12,081,447
Increase (decrease) in net position	$ (4,602,525)	$ 1,659,034	$ (6,261,559)

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed this year, its governmental funds reported a combined fund balance of $30.9 million, which is below last year's ending fund balance of $31.5 million. The primary cause of the decreased fund balance is a decrease in the Building Fund balance due to use of bond funds.

Table A-3: The District's Fund Balances

	Fund Balances				
Fund	July 1, 2016	Revenues	Expenditures	Other Financing Uses and Sources	June 30, 2017
General Fund	$ 19,042,438	$ 96,521,910	$ 95,909,465	$ 11,143	$ 19,666,026
Cafeteria Fund	194,203	4,265,078	4,359,053	-	100,228
Deferred Maintenance Fund	97,015	1,294	97,534	-	775
Building Fund	1,579,539	8,172	1,585,597	-	2,114
Capital Facilities Fund	8,112,843	908,486	395,140	-	8,626,189
County School Facilities Fund	141,303	1,213	-	-	142,516
Bond Interest and Redemption Fund	2,309,542	2,151,298	2,069,881	-	2,390,959
Total	$ 31,476,883	$ 103,857,451	$ 104,416,670	$ 11,143	$ 30,928,807

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (continued)

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

- Revenues – increased by $8.0 million primarily to reflect federal and state budget actions.
- Salaries and benefits costs – increased $6.6 million due to more accurate mid-year projections.
- Other non-personnel expenses – increased $2.4 million to re-budget carryover funds and revise operational cost estimates.

While the District's final budget for the General Fund anticipated that revenues would fall short of expenditures by about $3.1 million, the actual results for the year show that revenues exceeded expenditures by roughly $612,000. Actual revenues were $496,000 less than anticipated, and expenditures were $4.2 million less than budgeted. That amount consists primarily of restricted categorical program dollars that were not spent as of June 30, 2017, that will be carried over into the 2017-18 budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets
By the end of 2016-17 the District had invested $3.0 million in new capital assets, related to construction in progress, site improvements, and equipment purchases. (More detailed information about capital assets can be found in Note 6 to the financial statements). Total depreciation expense for the year was $3.4 million.

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

	Governmental Activities		Variance Increase
	2017	**2016**	**(Decrease)**
Land	$ 1,958,169	$ 1,958,169	$ -
Improvement of sites	8,771,880	6,495,322	2,276,558
Buildings	72,533,575	54,469,839	18,063,736
Equipment	1,709,356	2,031,938	(322,582)
Construction in progress	448,412	20,800,904	(20,352,492)
Total	$ 85,421,392	$ 85,756,172	$ (334,780)

CAPITAL ASSET AND DEBT ADMINISTRATION (continued)

Long-Term Debt
At year-end the District had $52.0 million in general obligation bonds, capital leases, compensated absences, early retirement incentives, and employment benefits – an increase of 5.6% from last year – as shown in Table A-5. (More detailed information about the District's long-term liabilities is presented in Note 7 to the financial statements).

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

	Governmental Activities		Variance Increase
	2017	2016*	(Decrease)
General obligation bonds	$ 47,155,217	$ 46,983,431	$ 171,786
Capital leases	795,369	973,478	(178,109)
Compensated absences	469,589	435,010	34,579
Early retirement incentives	3,253,137	571,641	2,681,496
Other postemployment benefits	351,734	322,039	29,695
Total	$ 52,025,046	$ 49,285,599	$ 2,739,447

* *As restated*

FACTORS BEARING ON THE DISTRICT'S FUTURE

The Governor signed the 2017-18 *Budget Act* and other budget-related bills on June 27, 2017.

Proposition 98

Overview

State budgeting for schools and community colleges is based primarily on Proposition 98, approved by voters in 1988 and amended in 1990. In this section, we provide an overview of Proposition 98 changes under the enacted budget package.

Proposition 98 Establishes Minimum Spending Level
Proposition 98 establishes a minimum spending requirement commonly called the minimum guarantee. The minimum guarantee is determined by three main formulas (known as tests) and various inputs, including General Fund revenue, per capita personal income, and K-12 attendance. The state can spend at the minimum guarantee or any level above it. Spending above the minimum guarantee one year typically becomes part of the base for calculating the minimum guarantee the next year. If the minimum guarantee increases after budget enactment due to updated inputs, the state owes a "settle-up" obligation. In some years, the state also creates or pays "maintenance factor." Maintenance factor is created when General Fund revenue is weak relative to per capita personal income and is paid when General Fund revenue is stronger.

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

Proposition 98 (continued)

Overview (continued)

2015-16 and 2016-17 Minimum Guarantees Down but Total Spending Up Slightly
The 2015-16 minimum guarantee has decreased $379 million due to lower-than-expected General Fund revenue. Proposition 98 spending that year, however, has increased $53 million due to various minor adjustments involving the Local Control Funding Formula (LCFF) and community college apportionments. The 2016-17 minimum guarantee has decreased $558 million, again due to lower estimates of General Fund revenue. Proposition 98 spending that year has decreased by $484 million, but total spending, including a settle-up payment of $514 million, is up slightly ($29 million) from the June 2016 level. The settle-up payment allows the state to cover some 2016-17 LCFF costs using funds set aside for Proposition 2 (2014) debt payments. In both 2015-16 and 2016-17, Proposition 98 spending is above the calculated minimum guarantees.

2017-18 Spending Up $3.1 Billion Over Revised 2016-17 Level
In 2017-18, total spending across all segments is $74.5 billion, an increase of $3.1 billion (4.4 percent) from the revised 2016-17 level. For 2017-18, the state funds at the estimate of the minimum guarantee. This estimate builds upon the higher levels of spending provided in 2015-16 and 2016-17. (Had the state not funded above the guarantee in those two years, the 2017-18 guarantee would have been $542 million lower.) Test 2 is the operative test in 2017-18, with the change in the guarantee attributable to a 3.7 percent increase in per capita personal income and a 0.05 percent decline in K-12 attendance. The increase in the guarantee also reflects a maintenance factor payment of $536 million. Under the administration's estimates, the state would end 2017-18 with an outstanding maintenance factor obligation of $900 million.

About One-Third of Increase Covered With Higher Property Tax Revenue
Of the total Proposition 98 spending provided in 2017-18, $52.6 billion is state General Fund and $21.9 billion is local property tax revenue. From 2016-17 to 2017-18, state General Fund increases $2.1 billion (accounting for about two-thirds of the $3.1 billion increase in spending) and property tax revenue increases by $1 billion. The primary factor explaining the growth in property tax revenue is the projected 5.3 percent growth in assessed property values, which is similar to the average growth rate over the past 20 years. Regarding local revenue associated with the dissolution of redevelopment agencies, the budget plan assumes a net increase of $31 million. This consists of a $131 million increase in the ongoing revenue shifted to schools and community colleges, offset by a $100 million decrease in revenue from the sale of assets formerly owned by redevelopment agencies.

Spending Package Reduces Outstanding Settle-Up Obligation by $603 Million
The budget plan includes a $603 million settle-up payment related to meeting the 2009-10 minimum guarantee. This payment reduces the state's outstanding settle-up obligation from slightly above $1 billion to $440 million. Of the $603 million provided, the budget plan allocates $514 million for covering 2016-17 LCFF costs, $86 million for the community college guided pathways initiative, and $3 million for the Career Technical Education Incentive Grant program. The state budget package scores all of the settle-up spending as a Proposition 2 debt payment.

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

Proposition 98 (continued)

K-12 Education

$64.7 Billion Proposition 98 Funding for K-12 Education in 2017-18
The budgeted 2017-18 level is $2.7 billion (4.3 percent) more than revised 2016-17 level and $2.2 billion (3.6 percent) more than the *2016-17 Budget Act* level. The budget increases funding per student by $450 (4.3 percent) over the *2016-17 Budget Act* level, bringing Proposition 98 funding per student up to $10,863.

Package Includes Mix of Ongoing and One-Time Spending
The budget includes $2.4 billion in augmentations for K-12 education. Of these augmentations, $1.5 billion are ongoing increases and $933 million are one-time initiatives. In addition to these changes, the budget package includes $328 million in one-time initiatives funded from other sources. (Of this amount, $325 million is from Proposition 98 reversion dollars and $3 million is from a settle-up payment. Of the reversion dollars, $114 million is for a fund swap primarily relating to special education.) The budget also authorizes $593 million from Proposition 51 (2016) general obligation bond proceeds for school facilities.

General Purpose Funding

Accelerates Implementation of LCFF for School Districts and Charter Schools
The budget provides an additional $1.4 billion ongoing Proposition 98 funding for this purpose, bringing total LCFF funding for school districts and charter schools to $57.4 billion, a 2.7% increase over the revised 2016-17 level. The administration estimates this funding will result in the LCFF-target level being 97 percent-funded. School districts and charter schools may use LCFF monies for any educational purpose.

Funds One-Time Discretionary Grants
The largest one-time augmentation for K-12 education is $877 million that local education agencies (LEAs) may use for any educational purpose. Funding is distributed based on average daily attendance ($147 per ADA). If an LEA has unpaid mandate claims, funding counts toward those claims. As most LEAs do not have any such claims, we estimate only about one-third ($268 million) of the funding will end up reducing the K-12 mandates backlog. We estimate the K-12 mandates backlog will be $799 million at the end of 2017-18.

Other Changes

Specifies Use of Remaining Proposition 39 Funds and Extends Energy-Efficiency Programs Indefinitely
The budget provides $423 million Proposition 98 funding for energy-efficiency projects at schools and community colleges. This reflects the fifth and final year of Proposition 39 (2012) funding. Trailer legislation, however, extends the date for schools to use this funding by one year, to June 30, 2019, and sets rules for how any remaining uncommitted funds are to be used. The first $75 million in remaining funds is earmarked for school districts and COEs to replace or retrofit school buses. Priority is given to LEAs having the oldest buses, serving disadvantaged communities, or serving high shares of low-income students. The next $100 million is earmarked for a competitive grant program to provide K-12 LEAs with low- and no-interest loans for energy projects. Any funding still remaining is to be distributed as grants to K-12 LEAs according to Proposition 39 rules. The trailer legislation also extends the Proposition 39 energy-efficiency programs for K-12 and CCC LEAs beginning in 2018-19, contingent upon funds being made available through the annual budget act or other statute.

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

Proposition 98 (continued)

Other Changes (continued)

Augments After School Education and Safety (ASES) Program
Proposition 49, passed by the voters in 2002, requires the state to provide $550 million in Proposition 98 funds annually for the ASES program. Since Proposition 49 was enacted, ASES providers have received $7.50 per child per day. The budget increases ASES funding by $50 million (9%)—bringing total funding to $600 million. The augmentation will increase the per-child per-day rate.

School Facilities

Provides First Installment of Proposition 51 Bond Funding for School Facilities
Passed by the voters in November 2016, Proposition 51 authorizes the state to sell $9 billion in general obligation bonds—$7 billion for schools and $2 billion for community colleges. The state plans to issue $593 million of these bonds for K-12 facility projects in 2017-18. This would fully fund the state's list of $368 million in already approved facility projects, as well as $225 million in additional projects.

Establishes New Audit Rules
Trailer legislation shifts audit responsibilities for state-funded school facility projects from the Office of Public School Construction to local independent auditors. Moving forward, the local auditors are to review facility expenditures to ensure that they comply with the rules of the state's School Facilities Program. In June 2017, the State Allocation Board also enacted a regulatory change requiring districts to sign grant agreements prior to receiving state funding that specify allowable project expenditures.

All of these factors were considered in preparing the Morongo Unified School District budget for the 2017-18 fiscal year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

MORONGO UNIFIED SCHOOL DISTRICT
Statement of Net Position
June 30, 2017

	Total Governmental Activities
ASSETS	
Cash	$ 36,489,877
Accounts receivable	3,691,332
Inventories	90,104
Prepaid expenses	750
Non-depreciable assets	2,406,581
Depreciable assets	140,993,433
Less accumulated depreciation	(57,978,622)
Total assets	125,693,455
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to pensions	20,055,157
LIABILITIES	
Accounts payable	9,092,800
Unearned revenue	45,800
Long-term liabilities:	
Due or payable within one year	1,549,329
Due or payable after one year	50,475,717
Net pension liability	79,323,616
Total liabilities	140,487,262
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to pensions	3,799,060
NET POSITION	
Net investment in capital assets	40,993,829
Restricted for:	
Capital projects	8,525,690
Debt service	2,390,959
Educational and categorical programs	3,412,136
Unrestricted	(53,860,324)
Total net position	$ 1,462,290

MORONGO UNIFIED SCHOOL DISTRICT
Statement of Activities
For the Fiscal Year Ended June 30, 2017

		Program Revenues			Net (Expense)
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Change in Net Position
Governmental Activities:					
Instructional Services:					
Instruction	$ 60,924,680	$ 228,178	$ 12,155,105	$ 1,214	$ (48,540,183)
Instruction-Related Services:					
Supervision of instruction	2,727,852	-	1,288,356	-	(1,439,496)
Instructional library, media and technology	874,371	-	20,584	-	(853,787)
School site administration	6,926,936	-	236,996	-	(6,689,940)
Pupil Support Services:					
Home-to-school transportation	4,434,606	-	-	-	(4,434,606)
Food services	4,356,963	616,129	3,652,797	-	(88,037)
All other pupil services	5,457,552	-	1,758,121	-	(3,699,431)
General Administration Services:					
Data processing services	1,735,268	10,176	4,105	-	(1,720,987)
Other general administration	7,109,094	10,487	714,999	-	(6,383,608)
Plant Services	11,187,640	10,362	244,869	-	(10,932,409)
Ancillary Services	522,473	-	15,124	-	(507,349)
Community Services	146,159	-	42,000	-	(104,159)
Enterprise Activities	32,433	-	-	-	(32,433)
Interest on Long-Term Debt	2,060,418	-	-	-	(2,060,418)
Other Outgo	134,398	545,612	86,126	-	497,340
Total Governmental Activities	$ 108,630,843	$ 1,420,944	$ 20,219,182	$ 1,214	(86,989,503)

General Revenues:	
Property taxes	10,308,711
Federal and state aid not restricted to specific purpose	70,720,163
Interest and investment earnings	165,802
Miscellaneous	1,192,302
Total general revenues	82,386,978
Change in net position	(4,602,525)
Net position - July 1, 2016, as originally stated	7,038,293
Adjustment for restatement (Note 13)	(973,478)
Net Poisitoin - July 1, 2016, as restated	6,064,815
Net position - June 30, 2017	$ 1,462,290

MORONGO UNIFIED SCHOOL DISTRICT
Balance Sheet – Governmental Funds
June 30, 2017

	General Fund	Building Fund	Capital Facilities Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS					
Cash	$ 24,322,620	$ 1,757	$ 8,372,535	$ 2,972,099	$ 35,669,011
Accounts receivable	3,093,785	357	40,795	553,978	3,688,915
Due from other funds	917,689	-	243,015	-	1,160,704
Inventories	18,467	-	-	71,637	90,104
Prepaid expenditures	750	-	-	-	750
Total Assets	$ 28,353,311	$ 2,114	$ 8,656,345	$ 3,597,714	$ 40,609,484
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	$ 8,443,495	$ -	$ 30,156	$ 522	$ 8,474,173
Due to other funds	243,015	-	-	917,689	1,160,704
Current loans	-	-	-	45,800	45,800
Total Liabilities	8,686,510	-	30,156	964,011	9,680,677
Fund Balances					
Nonspendable	54,217	-	-	71,687	125,904
Restricted	3,311,908	2,114	8,626,189	2,562,016	14,502,227
Assigned	13,423,726	-	-	-	13,423,726
Unassigned	2,876,950	-	-	-	2,876,950
Total Fund Balances	19,666,801	2,114	8,626,189	2,633,703	30,928,807
Total Liabilities and Fund Balances	$ 28,353,311	$ 2,114	$ 8,656,345	$ 3,597,714	$ 40,609,484

Total fund balances - governmental funds			$ 30,928,807
In governmental funds, only current assets are reported. In the statement of net position, all assets are reported, including capital assets and accumulated depreciation.			
	Capital assets at historical cost:	143,400,014	
	Accumulated depreciation:	(57,978,622)	85,421,392
In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred. The additional liability for unmatured interest owing at the end of the period was:			(618,627)
In governmental funds, deferred outflows and inflows of resources relating to pensions are not reported because they are applicable to future periods. In the statement of net position, deferred outflows of resources and inflows of resources relating to pensions are reported.			
	Deferred outflows of resources relating to pensions	20,055,157	
	Deferred inflows of resources relating to pensions	(3,799,060)	16,256,097
In governmental funds, only current liabilities are reported. In the statement of net position, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consist of:			
	General obligation bonds payable	47,155,217	
	Capital leases payable	795,369	
	Compensated absences payable	469,589	
	Early retirement incentives payable	3,253,137	
	Other postemployment benefits payable	351,734	(52,025,046)
The net pension liability is not due and payable in the current reporting period, and therefore is not reported as a liability in the fund financial statements.			(79,323,616)
Internal service funds are used to conduct certain activities for which costs are changed to other funds on a full cost-recovery basis. Because internal service funds are presumed to operate for the benefit of governmental activities, assets, deferred outflows of resources, liabilities, and deferred inflows of resources of internal service funds are reported with governmental activities in the statement of net position. The net position for internal service funds is:			823,283
Total net position - governmental activities			$ 1,462,290

MORONGO UNIFIED SCHOOL DISTRICT

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds

For the Fiscal Year Ended June 30, 2017

	General Fund	Building Fund	Capital Facilities Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES					
LCFF sources	$ 73,600,380	$ -	$ -	$ -	$ 73,600,380
Federal sources	8,337,452	-	-	3,399,215	11,736,667
Other state sources	12,708,028	-	-	273,555	12,981,583
Other local sources	1,877,344	8,172	908,486	2,744,819	5,538,821
Total Revenues	96,523,204	8,172	908,486	6,417,589	103,857,451
EXPENDITURES					
Current:					
Instructional services:					
Instruction	57,458,504	-	-	-	57,458,504
Instruction-related services:					
Supervision of instruction	2,676,231	-	-	-	2,676,231
Instructional library, media and technology	827,268	-	-	-	827,268
School site administration	6,729,211	-	-	-	6,729,211
Pupil support services:					
Home-to-school transportation	4,428,924	-	-	-	4,428,924
Food services	92,108	-	-	4,275,143	4,367,251
All other pupil services	5,373,167	-	-	-	5,373,167
Ancillary services	513,714	-	-	-	513,714
Community services	144,208	-	-	-	144,208
General administration services:					
Data processing services	1,247,723	-	-	-	1,247,723
Other general administration	4,342,771	-	1,400	-	4,344,171
Plant services	11,075,985	-	34,750	8,910	11,119,645
Transfers of indirect costs	(75,000)	-	-	75,000	-
Capital outlay	759,217	1,585,597	358,990	-	2,703,804
Intergovernmental transfers	143,393	-	-	-	143,393
Debt service:					
Principal	189,252	-	-	537,519	726,771
Interest	80,323	-	-	1,532,362	1,612,685
Total Expenditures	96,006,999	1,585,597	395,140	6,428,934	104,416,670
Excess (Deficiency) of Revenues Over (Under) Expenditures	516,205	(1,577,425)	513,346	(11,345)	(559,219)
OTHER FINANCING SOURCES (USES)					
Proceeds from capital lease	11,143	-	-	-	11,143
Net Change in Fund Balances	527,348	(1,577,425)	513,346	(11,345)	(548,076)
Fund Balances, July 1, 2016	19,139,453	1,579,539	8,112,843	2,645,048	31,476,883
Fund Balances, June 30, 2017	$ 19,666,801	$ 2,114	$ 8,626,189	$ 2,633,703	$ 30,928,807

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 Fiscal Year Ended June 30, 2017

Total net change in fund balances - governmental funds		$ (548,076)
Amounts reported for governmental activities in the statement of activities are different because:		
In governmental funds, the costs of capital assets are reported as expenditures in the period when the assets are acquired. In the statement of activities, the cost of capital assets is allocated over its estimated useful life as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is:		
Expenditures for capital outlay:	3,035,386	
Depreciation expense:	(3,370,166)	
Net:		(334,780)
In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as a reduction of liabilities. Expenditures for repayment of the principal portion of long-term debt were:		726,771
In governmental funds, proceeds from capital leases are reported as other financing sources. In the government wide statements, proceeds are reported as increases to liabilities. Amounts recognized in governmental funds as proceeds from debt, net of issue premium were:		(11,143)
In governmental funds, accreted interest on capital appreciation bonds is not recorded as an expenditure from current resources. In the government-wide statement of activities, however, this is recorded as interest expense for the period.		(733,219)
In governmental funds, if debt is issued at a premium or discount, the premium or discount is recognized as an Other Financing Source or an Other Financing Use in the period it is incurred. In the government-wide statements, the premium or discount is amortized as interest over the life of the debt. Amortization of the premium for the period is:		23,914
In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period that it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period was:		6,855
In governmental funds, pension costs are recognized when employer contributions are made. In the statement of activities, pension costs are recognized on the accrual basis. This year, the difference between accrual-basis costs and actual employer contributions was:		(994,086)
In governmental funds, compensated absences are measured by the amount paid during the period. In the statement of activities, compensated absences are measured by the amounts earned. The difference between compensated absences paid and earned was:		(34,579)
In the government-wide statements, expenses must be accrued in connection with any liabilities incurred during the period that are not expected to be liquidated with current financial resources. This year, the increase in early retirement incentives was:		(2,681,496)
In governmental funds, OPEB costs are recognized when employer contributions are made. In the statement of activities, costs are measured and recognized in relation to the annual required contribution. The annual required contribution is the normal cost related to the current period plus a calculated amount necessary to systematically amortize any unfunded liability in accordance with generally accepted accounting principles. This year the difference between the annual required contribution for OPEB and amounts actually funded was:		(29,695)
Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because internal service funds are presumed to benefit governmental activities, internal service activities are reported as governmental in the statement of activities. The net increase or decrease in internal service funds was		7,009
Change in net position of governmental activities		$ (4,602,525)

MORONGO UNIFIED SCHOOL DISTRICT
Statement of Net Position – Proprietary Fund
June 30, 2017

	Governmental Activities Internal Service Fund
ASSETS	
Cash	$ 820,866
Accounts receivable	2,417
Total assets	$ 823,283
NET POSITION	
Restricted	$ 823,283

MORONGO UNIFIED SCHOOL DISTRICT
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Fund
For the Fiscal Year Ended June 30, 2017

	Governmental Activities Internal Service Fund
NON-OPERATING REVENUES	
Interest income	$ 7,009
Change in net position	7,009
Net position, July 1, 2016	816,274
Net position, June 30, 2017	$ 823,283

MORONGO UNIFIED SCHOOL DISTRICT
Statement of Cash Flows – Proprietary Fund
For the Fiscal Year Ended June 30, 2017

	Governmental Activities Internal Service Fund
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment income	$ 6,035
Net increase (decrease) in cash and cash equivalents	6,035
Cash and cash equivalents, July 1, 2016	814,831
Cash and cash equivalents, June 30, 2017	$ 820,866

	Student Body Funds
ASSETS	
Cash	$ 244,120
Total Assets	$ 244,120
LIABILITIES	
Due to student groups	$ 244,120
Total Liabilities	$ 244,120

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Morongo Unified School District (the "District") accounts for its financial transactions in accordance with the policies and procedures of the California Department of Education's *California School Accounting Manual*. The accounting policies of the District conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. The following is a summary of the more significant policies:

A. Reporting Entity

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

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District, in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete.

For financial reporting purposes, the component units have a financial and operational relationship which meets the reporting entity definition criteria of the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and thus are included in the financial statements using the blended presentation method as if they were part of the District's operations because the Board of Education of the component units is essentially the same as the Board of Education of the District and because their purpose is to finance the construction of facilities to be used for the direct benefit of the District.

The District has identified no organizations that are required to be reported as component units.

B. Basis of Presentation, Basis of Accounting

1. Basis of Presentation

Government-Wide Financial Statements

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

1. Basis of Presentation (continued)

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

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

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

Major Governmental Funds
The District reports the following major governmental funds:

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

1. Basis of Presentation (continued)

Non-Major Governmental Funds
The District reports the following non-major governmental funds:

Special Revenue Funds:

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

Capital Projects Funds:

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

Debt Service Fund:

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

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

Internal Service Funds: These funds are used to account for services rendered on a cost-reimbursement basis within the District. The District maintains one self-insurance fund:

Self-Insurance Fund: This fund may be used to account for any activity for which goods or services are provided to other funds of the District in return for a fee to cover the cost of operations.

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

2. Measurement Focus, Basis of Accounting

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

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Budgetary Data

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

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

D. Encumbrances

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

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

1. Cash and Cash Equivalents

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

2. Inventories and Prepaid Items

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

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

3. Capital Assets

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

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

Description	Estimated Lives
Buildings	20-50 years
Improvements/Infrastructure	5-50 years
Equipment	2-15 years

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

4. Unearned Revenue

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

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

5. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has one item that qualifies for reporting in this category. That item is related to its pension plans as more fully described in the footnote entitled “Pension Plans”.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. The District has one item that qualifies for reporting in this category. That item is to recognize the District's proportionate share of the deferred inflows of resources related to its pension plans as more fully described in the footnote entitled "Pension Plans".

6. Compensated Absences

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

7. Pensions

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

8. Fund Balances

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

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

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

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

Assigned: Resources that are constrained by the District's intent to use them for a specific purpose, but are neither restricted nor committed, are reported as assigned fund balance. Intent may be expressed by either the Board, committees (such as budget or finance), or officials to which the Board has delegated authority.

Unassigned: Unassigned fund balance represents fund balance that has not been restricted, committed, or assigned and may be utilized by the District for any purpose. When expenditures are incurred, and both restricted and unrestricted resources are available, it is the District's policy to use restricted resources first, then unrestricted resources in the order of committed, assigned, and then unassigned, as they are needed.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

- **Net investment in capital assets -** This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

- **Restricted -** This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

- **Unrestricted net position -** This component of net position consists of net position that does not meet the definition of "net investment in capital assets" or "restricted".

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

F. Minimum Fund Balance Policy
Fund balance measures the net financial resources available to finance expenditures of future periods. The District's Unassigned General Fund Balance will be maintained to provide the District with sufficient working capital and a margin of safety to address local and regional emergencies without borrowing. The Unassigned General Fund Balance may only be appropriated by resolution of the Board of Education.

Fund Balance of the District may be committed for a specific source by formal action of the Board of Education. Amendments or modification to the committed fund balance must also be approved by formal action of the Board of Education. Committed fund balance does not lapse at year-end. The formal action required to commit fund balance shall be by board resolution or majority vote.

The Board of Education delegates authority to assign fund balance for a specific purpose to the Associate Superintendent, Business Services of the District with notification at the next scheduled Board Meeting to the Board of Education.

For purposes of fund balance classification, expenditures are to be spent from restricted fund balance first and then unrestricted. Expenditures incurred in the unrestricted fund balances shall be reduced first from the committed fund balance, then from the assigned fund balance and lastly, the unassigned fund balance.

The District currently adheres to the state mandated minimal level of fund balance as outlined in Title V of the California Code of Regulations Section 15443, Reserve.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

I. New GASB Pronouncements
During the 2016-17 fiscal year, the following GASB Pronouncements became effective:

1. **Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68 (Issued 06/15)***
The requirements of this Statement extend the approach to accounting and financial reporting established in Statement 68 to all pensions, with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in Statement 68 should not be considered pension plan assets. It also requires that information similar to that required by Statement 68 be included in notes to financial statements and required supplementary information by all similarly situated employers and nonemployer contributing entities.

2. **Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (Issued 06/15)***
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.* Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. The scope of this Statement includes OPEB plans – defined benefit and defined contribution – administered through trusts that meet the following criteria:

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. New GASB Pronouncements (continued)

3. **Statement No. 77, *Tax Abatement Disclosures (Issued 08/15)***
For financial reporting purposes, this Statement defines a tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens. This Statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements, and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues.

4. **Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans (Issued 12/15)***
This Statement amends the scope and applicability of Statement 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).

5. **Statement No. 80, *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14 (Issued 01/16)***
This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. 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.

6. **Statement No. 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73 (Issued 03/16)***
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 68, and Amendments to Certain Provisions of GASB Statements 67 and 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.

NOTE 2 – CASH

Cash at June 30, 2017, is reported at fair value and consisted of the following:

	Governmental Activities			
	Governmental Funds	Proprietary Fund	Total	Fiduciary Funds
Pooled Funds:				
Cash in County Treasury	$ 35,194,969	$ 820,866	$ 36,015,835	$ -
Deposits:				
Cash on hand and in banks	438,992	-	438,992	244,120
Cash in revolving fund	35,050	-	35,050	-
Total Deposits	474,042	-	474,042	244,120
Total Cash	$ 35,669,011	$ 820,866	$ 36,489,877	$ 244,120

Investment security ratings reported as of June 30, 2017, are defined by Standard and Poors.

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

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

In accordance with applicable state laws, the County Treasurer may invest in derivative securities with the State of California. However, at June 30, 2017, the County Treasurer has represented that the Pooled Investment Fund contained no derivatives or other investments with similar risk profiles.

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

As of June 30, 2017, $247,295 of the District's bank balance was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agency, but not in the name of the District.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2017, consisted of the following:

	General Fund	Building Fund	Capital Faciliites Fund	Non-Major Governmental Funds	Total Governmental Funds	Self-Insurance Fund
Federal Government:						
Categorical aid programs	$ 1,883,724	$ -	$ -	$ 496,110	$ 2,379,834	$ -
State Government:						
Child Nutrition	-	-	-	38,413	38,413	-
Lottery	339,858	-	-	-	339,858	-
Categorical aid programs	191,108	-	-	-	191,108	-
Local:						
Interest	56,903	357	24,267	419	81,946	2,417
Other local sources	622,192	-	16,528	19,036	657,756	-
Total	$ 3,093,785	$ 357	$ 40,795	$ 553,978	$ 3,688,915	$ 2,417

NOTE 4 – INTERFUND TRANSACTIONS

Balances Due To/From Other Funds

Balances due to/from other funds at June 30, 2017, consisted of the following:

Cafeteria Fund due to General Fund for payroll and operating expenses	$ 917,689
General Fund due to Capital Facilities Fund for expenditure reimbursement	243,015
Total	$ 1,160,704

NOTE 5 – FUND BALANCES

At June 30, 2017, fund balances of the District's governmental funds were classified as follows:

	General Fund	Building Fund	Capital Facilities Fund	Non-Major Governmental Funds	Total
Nonspendable:					
Revolving cash	$ 35,000	$ -	$ -	$ 50	$ 35,050
Stores inventories	18,467	-	-	71,637	90,104
Prepaid expenditures	750	-	-	-	750
Total Nonspendable	54,217	-	-	71,687	125,904
Restricted:					
Categorical programs	3,311,908	-	-	-	3,311,908
Food service program	-	-	-	28,541	28,541
Capital projects	-	2,114	8,626,189	142,516	8,770,819
Debt service	-	-	-	2,390,959	2,390,959
Total Restricted	3,311,908	2,114	8,626,189	2,562,016	14,502,227
Assigned:					
Site donations carryover	7,836	-	-	-	7,836
Site discretionary carryover	98,199	-	-	-	98,199
MBG1-X and IT infractructure	1,653,313	-	-	-	1,653,313
Deferred Maintenance	503,244	-	-	-	503,244
LCAP	910,810	-	-	-	910,810
Strategic plan- Technology	500,000	-	-	-	500,000
Strategic plan- Deferred Maintenance	500,000	-	-	-	500,000
Reserve future unfunded	9,009,608	-	-	-	9,009,608
Lottery	240,716	-	-	-	240,716
Total Assigned	13,423,726	-	-	-	13,423,726
Unassigned:					
Reserve for economic uncertainties	2,876,950	-	-	-	2,876,950
Total Unassigned	2,876,950	-	-	-	2,876,950
Total	$ 19,666,801	$ 2,114	$ 8,626,189	$ 2,633,703	$ 30,928,807

NOTE 6 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2017, was as follows:

	Balance, July 1, 2016	Additions	Deletions	Balance, June 30, 2017
Capital assets not being depreciated:				
Land	$ 1,958,169	$ -	$ -	$ 1,958,169
Construction in progress	20,800,904	2,695,185	23,047,677	448,412
Total capital assets not being depreciated	22,759,073	2,695,185	23,047,677	2,406,581
Capital assets being depreciated:				
Improvement of sites	16,645,844	2,634,473	-	19,280,317
Buildings	90,167,130	20,421,825	-	110,588,955
Equipment	10,803,102	331,580	10,521	11,124,161
Total capital assets being depreciated	117,616,076	23,387,878	10,521	140,993,433
Accumulated depreciation for:				
Improvement of sites	(10,150,522)	(357,915)	-	(10,508,437)
Buildings	(35,697,291)	(2,358,089)	-	(38,055,380)
Equipment	(8,771,164)	(654,162)	(10,521)	(9,414,805)
Total accumulated depreciation	(54,618,977)	(3,370,166)	(10,521)	(57,978,622)
Total capital assets being depreciated, net	62,997,099	20,017,712	-	83,014,811
Governmental activities capital assets, net	$ 85,756,172	$ 22,712,897	$ 23,047,677	$ 85,421,392

Depreciation expense is allocated to the following functions in the statement of activities:

Instruction	$ 2,548,224
Instruction Supervision and Administration	7,744
Instruction Library, Media and Technology	33,131
School Site Administration	71,316
Home-to-School Transportation	1,789
Food Services	63,559
All Other Pupil Services	676
Ancillary Services	4,322
All Other General Administration	56,862
Centralized Data Processing	490,788
Plant Services	91,755
Total	$ 3,370,166

NOTE 7 – GENERAL LONG-TERM DEBT

Changes in long-term debt for the year ended June 30, 2017, were as follows:

	Original Balance, July 1, 2016	Adjustments for Restatements	Adjusted Balance, July 1, 2016	Additions	Deductions	Balance, June 30, 2017	Amount Due Within One Year
General Obligation Bonds:							
Principal	$ 43,837,039	$ -	$ 43,837,039	$ -	$ 537,519	$ 43,299,520	$ 600,829
Accreted Interest Component	2,787,690	-	2,787,690	770,700	37,481	3,520,909	69,171
Unamortized Issuance Premium	358,702	-	358,702	-	23,914	334,788	23,914
Subtotal Bonds	46,983,431	-	46,983,431	770,700	598,914	47,155,217	693,914
Capital Leases	-	973,478	973,478	11,143	189,252	795,369	204,788
Compensated Absences	435,010	-	435,010	34,579	-	469,589	-
Early Retirement Incentive	571,641	-	571,641	3,253,137	571,641	3,253,137	650,627
Other Postemployment Benefits	322,039	-	322,039	29,695	-	351,734	-
Totals	$ 48,312,121	$ 973,478	$ 49,285,599	$ 4,099,254	$ 1,359,807	$ 52,025,046	$ 1,549,329

Payments for general obligation bonds are made by the Bond Interest and Redemption Fund. Payments for supplemental early retirement program are made in the General Fund. Payments for compensated absences and OPEB benefits are typically liquidated in the fund for which the employee worked. Payments for capital leases are made by the General Fund.

A. General Obligation Bonds

2005 Election, Series B

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.

2005 Election, Series C

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 pay off the assessment payable.

2012 Refunding General Obligation 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 long term obligations. The bonds mature on August 1, 2030, with interest rates ranging from 2.00 to 5.00 percent.

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

A. General Obligation Bonds (continued)

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

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Balance, July 1, 2016	Additions	Deductions	Balance, June 30, 2017
Election of 2005 (Measure O)								
Series B	6/12/2008	8/1/2038	4.00% - 5.25%	$ 21,000,000	$ 19,240,000	$ -	$ 205,000	$ 19,035,000
Series C	3/29/2012	8/1/2042	4.34% - 12.00%	17,147,652	17,117,039	-	57,519	17,059,520
Refunding Bonds								
2012 Ref.	11/29/2012	8/1/2030	2.0% - 5.0%	7,935,000	7,480,000	-	275,000	7,205,000
					$ 43,837,039	$ -	$ 537,519	$ 43,299,520
				Accreted Interest:				
				CABs	$ 1,520,388	$ 426,322	$ 37,481	$ 1,909,229
				Convertible CABs	1,267,302	344,378	-	1,611,680
					$ 2,787,690	$ 770,700	$ 37,481	$ 3,520,909

The annual requirements to amortize general obligation bonds outstanding at June 30, 2017, are as follows:

Year	Principal	Interest	Total
2017-18	$ 600,829	$ 1,546,527	$ 2,147,356
2018-19	626,884	1,604,897	2,231,781
2019-20	698,046	1,617,860	2,315,906
2020-21	757,256	1,635,285	2,392,541
2021-22	831,780	1,652,784	2,484,564
2022-27	5,870,762	8,274,988	14,145,750
2027-32	7,623,587	9,112,207	16,735,794
2032-37	10,016,668	10,271,151	20,287,819
2037-42	11,003,708	7,963,988	18,967,696
2042-43	5,270,000	108,694	5,378,694
Total	$ 43,299,520	$ 43,788,381	$ 87,087,901

B. Capital Leases

The District leases equipment valued at $1,197,503 under agreements that provide for title to pass upon expiration of the lease period and where the lease term is most of the equipment's useful life. Future minimum lease payments are as follows:

Fiscal Year	Principal	Interest	Total
2017-18	$ 204,788	$ 52,769	$ 257,557
2018-19	220,701	36,857	257,558
2019-20	237,850	19,708	257,558
2020-21	130,910	3,144	134,054
2021-22	1,120	27	1,147
Total	$ 795,369	$ 112,505	$ 907,874

The District will receive no sublease rental revenues nor pay any contingent rentals for the project.

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

C. Early Retirement

The District has established a supplemental early retirement incentive program (SERP) whereby certain qualified employees may retire early and receive a portion of their salary paid out as an annuity. The total future payments owing at June 30, 2017, for these obligations are shown below.

Fiscal Year	Payment
2017-2018	$ 650,627
2018-2019	650,628
2019-2020	650,627
2020-2021	650,628
2021-2022	650,627
Total	$ 3,253,137

NOTE 8 – JOINT VENTURES

The Morongo Unified School District participates in joint ventures under joint powers agreements with 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 relationships between the District and the JPAs are such that the JPAs are not a component unit of the District for financial reporting purposes.

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

Condensed financial information for the JPAs are as follows:

	SCSRM June 30, 2016	SCSEBA June 30, 2016	SELF June 30, 2016	HDIEET June 30, 2017
Assets	$ 70,537,569	$ 42,758,638	$ 139,086,680	$ 5,907,781
Liabilities	31,454,061	15,417,400	117,552,059	2,457,624
Total Net Position/Assets	$ 39,083,508	$ 27,341,238	$ 21,534,621	$ 3,450,157
Revenues	$ 42,365,129	$ 214,913,168	$ 10,982,004	$ 70,172,019
Expenses	41,655,965	211,302,947	24,553,606	69,341,116
Operating Income	709,164	3,610,221	(13,571,602)	830,903
Net Non-Operating Income and Expenses	159,458	312,367	2,916,594	(177,495)
Change in Net Position/Assets	$ 868,622	$ 3,922,588	$ (10,655,008)	$ 653,408

NOTE 9 – COMMITMENTS AND CONTINGENCIES

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

B. Construction Commitments
As of June 30, 2017, the District had commitments with respect to unfinished capital projects of $127,546 to be paid from a combination of State and local funds.

C. Litigation
The District is involved in certain legal matters that arose out of the normal course of business. The District has not accrued a liability for any potential litigation against it because it does not meet the criteria to be considered a liability at June 30, 2017.

NOTE 10 – RISK MANAGEMENT

Property and Liability
The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions. During fiscal year ending June 30, 2017, the District participated in the Schools Excess Liability Fund public entity risk pool for property and liability insurance coverage.

Workers' Compensation
For fiscal year 2016-17, the District participated in Southern California Risk Management for workers compensation.

Employee Medical Benefits
The District has contracted with High Desert and Inland Empire/Employer Trust and Southern California Schools Employee Benefits Association to provide employee medical, vision, and dental benefits.

NOTE 11 – PENSION PLANS

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Certificated employees are members of the California State Teachers' Retirement System (CalSTRS), and classified employees are members of California Public Employees' Retirement System (CalPERS).

A. General Information about the Pension Plans

Plan Descriptions

The District contributes to the California State Teachers' Retirement System (CalSTRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. Benefit provisions under the Plan are established by State statute and District resolution. CalSTRS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions, and membership information that can be found on the CalSTRS website.

The District also contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Benefit provisions under the Plan are established by State statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions, and membership information that can be found on the CalPERS website.

Benefits Provided

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

NOTE 11 – PENSION PLANS (continued)

A. General Information about the Pension Plans (continued)

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

Pre-retirement death benefits range from a simple return of member contributions plus interest to a monthly allowance equal to half of what the member would have received at retirement paid to a spouse or domestic partner. To be eligible for any type of monthly pre-retirement death benefit, a spouse or domestic partner must have been either married to the member or legally registered before the occurrence of the injury or the onset of the illness that resulted in death, or for at least one year prior to death. Cost-of-living adjustments are provided by law and are based on the Consumer Price Index for all United States cities. Cost-of-living adjustments are paid the second calendar year of the member's retirement on the May 1 check and then every year thereafter. The standard cost-of-living adjustment is a maximum of 2 percent per year.

Contributions
Active CalSTRS plan members under *2% at 60* were required to contribute 10.25% and plan members under *2% at 62* were required to contribute 9.205% of their salary in 2016-17. The required employer contribution rate for fiscal year 2016-17 was 12.58% of annual payroll. The contribution requirements of the plan members are established by State statute. Active CalPERS plan members are required to contribute 7.0% of their salary, and the District is required to contribute an actuarially determined rate.

The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The required employer contribution for fiscal year 2016-17 was 13.888%. The contribution requirements of the plan members are established by State statute.

For the fiscal year ended June 30, 2017, the contributions recognized as part of pension expense for each Plan were as follows:

	CalSTRS	CalPERS
Employer contributions	$ 5,072,559	$ 1,806,114
Employer contributions paid by State	$ 3,219,276	$ -
Employee contributions paid by employer	$ -	$ -

NOTE 11 – PENSION PLANS (continued)

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

As of June 30, 2017, the District reported net pension liabilities for its proportionate shares of the net pension liability of each Plan as follows:

	Proportionate Share of Net Pension Liability
CalSTRS	$ 61,469,560
CalPERS	$ 17,854,056
Total Net Pension Liability	$ 79,323,616

The District's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2016, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015, rolled forward to June 30, 2016, using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability for each Plan as of June 30, 2015 and 2016, was as follows:

	CalSTRS	CalPERS
Proportion - June 30, 2015	0.0762%	0.0897%
Proportion - June 30, 2016	0.0760%	0.0904%
Change - Increase (Decrease)	-0.0002%	0.0007%

For the year ended June 30, 2017, the District recognized pension expense of $8,195,135. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 6,878,673	$ -
Differences between actual and expected experience	767,895	(1,499,480)
Changes in assumptions	-	(536,408)
Adjustment due to differences in proportions	3,003,084	-
Net differences between projected and actual earnings on plan investments	9,405,505	(1,763,172)
	$ 20,055,157	$ (3,799,060)

NOTE 11 – PENSION PLANS (continued)

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

The total amount of $6,878,673 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30,	Amount
2018	$ 1,699,898
2019	1,663,543
2020	2,518,550
2021	910,598
2022	(237,881)
Thereafter	-

Actuarial Assumptions – The total pension liabilities in the June 30, 2015, actuarial valuations were determined using the following actuarial assumptions:

	CalSTRS	CalPERS
Valuation Date	June 30, 2015	June 30, 2015
Measurement Date	June 30, 2016	June 30, 2016
Actuarial Cost Method	Entry age normal	Entry age normal
Actuarial Assumptions:		
Discount Rate	7.60%	7.65%
Inflation	3.00%	2.75%
Wage Growth	3.75%	Varies
Post-retirement Benefit Increase	2.00%	2.00%
Investment Rate of Return	7.60%	7.65%

CalSTRS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are based on RP2000 series tables adjusted to fit CalSTRS experience. RP2000 series tables are an industry standard set of mortality rates published by the Society of Actuaries. See CalSTRS July 1, 2006 - June 30, 2010 Experience Analysis for more information. The underlying mortality assumptions and all other actuarial assumptions used in the CalPERS June 30, 2015 valuation were based on the results of an actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can be found on the CalPERS website.

NOTE 11 – PENSION PLANS (continued)

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

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

Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

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

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

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

The long-term expected real rates of return by asset class can be found in CalPERS' Comprehensive Annual Financial Report for the fiscal year ended June 30, 2016.

NOTE 11 – PENSION PLANS (continued)

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

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

	Target Allocation		Long-Term Expected Rate of Return	
Asset Class	CalSTRS	CalPERS	CalSTRS	CalPERS
Global Equity	47%	51%	6.30%	5.71%
Global Debt Securities	N/A	20%	N/A	2.43%
Inflation Sensitive	4%	6%	3.80%	3.36%
Private Equity	13%	10%	9.30%	6.95%
Absolute Return/Risk Mitigating Strategies	9%	N/A	2.90%	N/A
Real Estate	13%	10%	5.20%	5.13%
Infrastructure and Forestland	N/A	2%	N/A	5.09%
Fixed Income	12%	N/A	0.30%	N/A
Cash/Liquidity	2%	1%	-1.00%	-1.05%
	100%	100%		

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate
The following presents the District's proportionate share of the net pension liability for each Plan, calculated using the discount rate for each Plan, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	CalSTRS	CalPERS
1% Decrease	6.60%	6.65%
Net Pension Liability	$ 88,468,560	$ 26,638,351
Current Discount Rate	7.60%	7.65%
Net Pension Liability	$ 61,469,560	$ 17,854,056
1% Increase	8.60%	8.65%
Net Pension Liability	$ 39,045,760	$ 10,539,402

Pension Plan Fiduciary Net Position
Detailed information about each pension plan's fiduciary net position is available in the separately issued CalSTRS and CalPERS financial reports.

C. Payable to the Pension Plans
At June 30, 2017, the District reported a payable of $455,861 and $9,301 for the outstanding amount of contributions to the CalSTRS and CalPERS pension plans, respectively, required for the fiscal year ended June 30, 2017.

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS

Morongo Unified School District administers a single-employer defined benefit other postemployment benefit (OPEB) plan that provides medical, dental and vision insurance benefits to eligible retirees and their spouses. The District implemented Governmental Accounting Standards Board Statement #45, *Accounting and Financial Reporting by Employers for Postemployment Benefit Plans Other Than Pension Plans*, in 2008-09.

Plan Descriptions and Contribution Information

Membership in the plan consisted of the following:

Retirees and beneficiaries receiving benefits *	32
Active plan members *	600
Total	632

**As of January 1, 2017 actuarial valuation*

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.

Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost is calculated based on the Annual Required Contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation:

Annual required contribution (ARC)	$ 32,243
Interest on net OPEB obligation	14,492
Adjustment to ARC	(17,040)
Annual OPEB cost	29,695
Contributions made: Pay-as-you-go costs	-
Increase (decrease) in net OPEB obligation (asset)	29,695
Net OPEB obligation (asset), beginning of year	322,039
Net OPEB obligation (asset), end of year	$ 351,734

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2016-17 and the preceding two years are as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
2015	$ 183,433	59.0%	$ 236,317
2016	$ 183,413	53.0%	$ 322,039
2017	$ 29,695	0.0%	$ 351,734

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (continued)

Funded Status and Funding Progress – OPEB Plans
As of January 1, 2017, the most recent actuarial valuation date, the District did not have a funded plan. The actuarial accrued liability (AAL) for benefits was $215,732 and the unfunded actuarial accrued liability (UAAL) was $215,732.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedules of funding progress present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

Additional information as of the latest actuarial valuation follows:

Valuation Date	January 1, 2017
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll
Remaining Amortization Period	23 years
Asset Valuation	N/A
Actuarial Assumptions:	
Discount rate	4.50%
Inflation	2.75%
Long-term healthcare cost trend rates	4.00%

NOTE 13 – ADJUSTMENT FOR RESTATEMENT

The District has restated the beginning net position on the Statement of Activities by $973,478 because the capital leases were accounted for as operating leases in the prior year.

Required Supplementary Information

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MORONGO UNIFIED SCHOOL DISTRICT

Budgetary Comparison Schedule – General Fund

For the Fiscal Year Ended June 30, 2017

	Budgeted Amounts			Variance with
	Original	Final	Actual* (Budgetary Basis)	Final Budget - Pos (Neg)
Revenues				
LCFF Sources	$ 71,584,453	$ 73,600,383	$ 73,600,380	$ (3)
Federal Sources	7,310,083	9,273,253	8,337,452	(935,801)
Other State Sources	9,048,132	12,490,371	12,708,028	217,657
Other Local Sources	1,017,369	1,654,093	1,876,050	221,957
Total Revenues	88,960,037	97,018,100	96,521,910	(496,190)
Expenditures				
Current:				
Certificated Salaries	39,982,581	42,500,486	41,640,875	859,611
Classified Salaries	13,672,959	14,387,228	14,387,227	1
Employee Benefits	18,959,890	22,327,238	21,900,013	427,225
Books and Supplies	3,906,150	5,185,828	4,129,732	1,056,096
Services and Other Operating Expenditures	14,350,344	14,149,904	12,504,765	1,645,139
Indirect Costs	(75,000)	(75,000)	(75,000)	-
Capital Outlay	144,060	1,481,719	995,718	486,001
Intergovernmental Transfers	88,238	143,394	156,560	(13,166)
Debt Service	11,467	14,867	269,575	(254,708)
Total Expenditures	91,040,689	100,115,664	95,909,465	4,206,199
Excess (Deficiency) of Revenues Over (Under) Expenditures	(2,080,652)	(3,097,564)	612,445	3,710,009
Other Financing Sources and Uses				
Proceeds from Capital Leases	-	-	11,143	11,143
Net Change in Fund Balance	(2,080,652)	(3,097,564)	623,588	3,721,152
Fund Balances, July 1, 2016	15,263,056	19,042,438	19,042,438	-
Fund Balances, June 30, 2017	$ 13,182,404	$ 15,944,874	$ 19,666,026	$ 3,710,009

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

MORONGO UNIFIED SCHOOL DISTRICT
Schedule of Funding Progress
For the Fiscal Year Ended June 30, 2017

Actuarial Valuation Date	Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
1/1/2015	$ -	$ 1,465,954	$ 1,465,954	0.0%	$ 52,520,366	2.8%
1/1/2017	$ -	$ 215,732	$ 215,732	0.0%	N/A	N/A

MORONGO UNIFIED SCHOOL DISTRICT
Schedule of Proportionate Share of the Net Pension Liability
For the Fiscal Year Ended June 30, 2017

Last Ten Fiscal Years*

	2016	2015	2014
CalSTRS			
District's proportion of the net pension liability	0.076%	0.076%	0.072%
District's proportionate share of the net pension liability	$ 61,469,560	$ 51,317,105	$ 42,153,464
State's proportionate share of the net pension liability associated with the District	34,998,676	27,141,019	25,454,337
Totals	$ 96,468,236	$ 78,458,124	$ 67,607,801
District's covered-employee payroll	$ 37,465,079	$ 45,270,304	$ 38,178,242
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	164.07%	113.36%	110.41%
Plan fiduciary net position as a percentage of the total pension liability	70%	74%	77%
CalPERS			
District's proportion of the net pension liability	0.0904%	0.0897%	0.0887%
District's proportionate share of the net pension liability	$ 17,854,056	$ 13,222,512	$ 10,072,581
District's covered-employee payroll	$ 9,674,441	$ 9,737,732	$ 10,810,294
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	184.55%	135.79%	93.18%
Plan fiduciary net position as a percentage of the total pension liability	74%	79%	83%

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

MORONGO UNIFIED SCHOOL DISTRICT
Schedule of Pension Contributions
For the Fiscal Year Ended June 30, 2017

Last Ten Fiscal Years*

	2017	2016	2015
CalSTRS			
Contractually required contribution	$ 5,072,559	$ 4,020,003	$ 3,149,705
Contributions in relation to the contractually required contribution	5,072,559	4,020,003	3,149,705
Contribution deficiency (excess):	$ -	$ -	$ -
District's covered-employee payroll	$ 40,322,409	$ 37,465,079	$ 35,469,651
Contributions as a percentage of covered-employee payroll	12.58%	10.73%	8.88%
CalPERS			
Contractually required contribution	$ 1,806,114	$ 1,146,131	$ 1,215,077
Contributions in relation to the contractually required contribution	1,806,114	1,146,131	1,215,077
Contribution deficiency (excess):	$ -	$ -	$ -
District's covered-employee payroll	$ 13,004,853	$ 9,674,441	$ 10,322,632
Contributions as a percentage of covered-employee payroll	13.888%	11.847%	11.771%

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

NOTE 1 – PURPOSE OF SCHEDULES

Budgetary Comparison Schedules

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

Schedule of Funding Progress

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

Schedule of Proportionate Share of the Net Pension Liability

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

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

Schedule of Pension Contributions

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

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

NOTE 2 – SUMMARY OF CHANGES OF BENEFITS OR ASSUMPTIONS

Benefit Changes

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

Changes of Assumptions

There were no changes of assumptions.

NOTE 3 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

At June 30, 2017, the District incurred the following excess of expenditures over appropriations in individual major funds presented in the Budgetary Comparison Schedule:

General Fund	Excess Expenditures
Intergovernmental Transfers	$ 13,166
Debt Service	254,708

Supplementary Information

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The Morongo Unified School District was established in 1958. The District boundaries encompass an area of approximately 1,358 square miles in the Mojave Desert in San Bernardino County. The District serves the communities of Morongo Valley, the Town of Yucca Valley, Pioneertown, Landers, Joshua Tree, the City of Twentynine Palms, and the Marine Corps Air Ground Task Force Training Center at Twentynine Palms. The District currently operates eleven elementary schools, two middle schools, two comprehensive high schools, one continuation high school, and an independent study program.

BOARD OF EDUCATION

Member	Office	Term Expires
L. Hilary Slotta	President	2018
Karalee Hargrove	Clerk	2020
Michael Chlebik	Member	2018
Denise Cohen	Member	2020
Chris Proudfoot	Member	2018

DISTRICT ADMINISTRATORS

Tom Baumgarten,
Superintendent

Sharon Flores,
Assistant Superintendent, Business Services

Debbie Turner,
Assistant Superintendent, Instructional Services

Doug Weller, [1]
Assistant Superintendent, Human Resources

[1] Resigned. Effective July 1, 2017, this position is held by Michael Ghelber.

MORONGO UNIFIED SCHOOL DISTRICT
Schedule of Average Daily Attendance
For the Fiscal Year Ended June 30, 2017

	Second Period Report Certificate No. (7FB21C41)	**Annual Report** Certificate No. (EBFEB183)
Regular ADA & Extended Year:		
Transitional Kindergarten through Third	2,778.86	2,776.70
Fourth through Sixth	1,925.64	1,920.32
Seventh and Eighth	1,165.99	1,159.84
Ninth through Twelfth	2,089.24	2,064.46
Total Regular ADA	7,959.73	7,921.32
Special Education, Nonpublic, Nonsectarian Schools:		
Transitional Kindergarten through Third	7.10	6.83
Fourth through Sixth	4.61	4.73
Seventh and Eighth	2.60	2.75
Ninth through Twelfth	10.66	10.11
Total Special Education, Nonpublic, Nonsectarian Schools	24.97	24.42
Total ADA	7,984.70	7,945.74

MORONGO UNIFIED SCHOOL DISTRICT
Schedule of Instructional Time
For the Fiscal Year Ended June 30, 2017

Grade Level	Required	2016-2017 Actual Minutes	Number of Days Traditional Calendar	Status
Kindergarten	36,000	57,660	180	Complied
Grade 1	50,400	52,365	180	Complied
Grade 2	50,400	52,365	180	Complied
Grade 3	50,400	52,400	180	Complied
Grade 4	54,000	54,040	180	Complied
Grade 5	54,000	54,040	180	Complied
Grade 6	54,000	54,040	180	Complied
Grade 7	54,000	65,379	180	Complied
Grade 8	54,000	65,379	180	Complied
Grade 9	64,800	65,040	180	Complied
Grade 10	64,800	65,040	180	Complied
Grade 11	64,800	65,040	180	Complied
Grade 12	64,800	65,040	180	Complied

MORONGO UNIFIED SCHOOL DISTRICT
Schedule of Financial Trends and Analysis
For the Fiscal Year Ended June 30, 2017

General Fund	(Budget) 2018 [3]	2017 [4]	2016	2015
Revenues and other financing sources	$ 90,445,555	$ 96,521,910	$ 91,926,938	$ 81,022,019
Expenditures	92,910,516	95,909,465	88,256,939	85,563,311
Other uses and transfers out	-	-	-	64,000
Total outgo	92,910,516	95,909,465	88,256,939	85,627,311
Change in fund balance (deficit)	(2,464,961)	612,445	3,669,999	(4,605,292)
Ending fund balance	$ 17,201,065	$ 19,666,026	$ 19,139,453	$ 15,469,454
Available reserves [1]	$ 2,787,315	$ 2,876,950	$ 2,914,205	$ 9,418,995
Available reserves as a percentage of total outgo	3.0%	3.0%	3.3%	11.0%
Total long-term debt	$ 129,799,333	$ 131,348,662	$ 112,851,738	$ 97,794,162
Average daily attendance at P-2 [2]	7,982	7,985	7,782	7,737

The General Fund balance has increased by $4.2 million over the past two years. The fiscal year 2017-18 adopted budget projects a decrease of $2.5 million. For a district of this size, the state recommends available reserves of at least 3% of total general fund expenditures, transfers out, and other uses (total outgo).

The District has incurred an operating deficit in only one of the past three years, but anticipates incurring an operating deficit during the 2017-18 fiscal year. The long-term debt has increased by $33.6 million over the past two years.

Average daily attendance has increased by 248 over the past two years. A decrease of 3 ADA is projected during fiscal year 2017-18.

[1] Available reserves consist of all unassigned fund balance in the General Fund.

[2] Excludes county operated programs ADA.

[3] Revised Final Budget September 2017.

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

There were no differences between the Annual Financial and Budget Report and the Audited Financial Statements in any funds.

MORONGO UNIFIED SCHOOL DISTRICT

Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Cluster Expenditures	Federal Expenditures
Federal Programs:				
U.S. Department of Agriculture:				
Passed through California Dept. of Education (CDE):				
Child Nutrition Cluster				
School Breakfast Program - Especially Needy	10.553	13526	$ 661,938	
National School Lunch Program	10.555	13523	2,445,126	
USDA Donated Foods	10.555	N/A	292,151	
Subtotal Child Nutrition Cluster				$ 3,399,215
NSLP Equipment Assistance Grants	10.579	14906		99,356
Total U.S. Department of Agriculture				3,498,571
U.S. Department of Defense:				
Education Activity Grant	12.030	N/A		73,072
Total U.S. Department of Defense				73,072
U.S. Department of Education:				
Federal Impact Aid	84.041	N/A		1,581,516
Passed through California Dept. of Education (CDE):				
No Child Left Behind (NCLB):				
Title I, Part A, Basic Grants	84.010	14329		3,101,216
Title I, Part G, Advanced Placement (AP) Test Fee Reimbursement	84.330	14831		2,774
Title II, Part A, Supporting Effective Instruction State Grant	84.367	14341		553,276
Title III, Limited English Proficiency	84.365	14346		50,531
Vocational and Applied Tech Secondary II, Carl Perkins Act	84.048	14893		94,209
Individuals with Disabilities Education Act (IDEA):				
Passed through Desert/Mountain SELPA:				
Special Education Cluster (IDEA)				
Basic Local Assistance Entitlement, Part B, Section 611	84.027	13379	1,766,773	
Local Assistance, Part B, Sec 611, Early Intervening Services	84.027	10119	296,548	
Preschool Grants, Part B, Section 619 (Age 3-4-5)	84.173	13430	75,416	
IDEA Part B, Sec 619, Preschool Grants Early Intervening Services	84.173	10131	12,382	
Preschool Local Entitlement, Part B, Section 611 (AGE 3-4-5)	84.027A	13682	176,532	
Mental Health Average Daily Attendance (ADA) Allocation, Part B, Sec 611	84.027A	15197	89,752	
IDEA Part B, Sec 611, Preschool Local Entitlement Early Intervening Services	84.027	10132	21,139	
Preschool Staff Development, Part B, Sec 619	84.173A	13431	918	
Subtotal Special Education (IDEA) Cluster				2,439,460
IDEA Early Intervention Grants, Part C	84.181	23761		74,070
Passed through Dept. of Rehabilitation:				
Workability II, Transition Partnership	84.126	10006		179,274
Total U.S. Department of Education				8,076,326
U.S. Department of Health & Human Services:				
Passed through California Dept. of Education:				
Medi-Cal Billing Option	93.778	10013		88,698
Total U.S. Department of Health & Human Services				88,698
Total Expenditures of Federal Awards				$ 11,736,667

Of the Federal expenditures presented in the schedule, the District provided no Federal awards to subrecipients.

NOTE 1 – PURPOSE OF SCHEDULES

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

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

Schedule of Financial Trends and Analysis

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

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

Schedule of Expenditures of Federal Awards

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

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Other Independent Auditors' Reports

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

Board of Education
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 as of and for the year ended June 30, 2017, 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 11, 2017.

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 the Morongo Unified School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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.

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Compliance and Other Matters
As part of obtaining reasonable assurance about whether Morongo Unified School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as Findings 2017-001 and 2017-002.

Morongo Unified School District's Responses to Findings
Morongo Unified School District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Morongo Unified School District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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.

Nigro & Nigro, PC

Murrieta, California
December 11, 2017

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Board of Education
Morongo Unified School District
Twentynine Palms, California

Report on State Compliance
We have audited Morongo Unified School District's compliance with the types of compliance requirements described in the *2016-17 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 on the following page for the fiscal year ended June 30, 2017.

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

Auditors' Responsibility
Our responsibility is to express an opinion on compliance for each of Morongo Unified School District's state programs based on our audit of the types of compliance requirements referred to on the following page. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to on the following page that could have a direct and material effect on a state program occurred. An audit includes examining, on a test basis, evidence about 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 state program. However, our audit does not provide a legal determination of Morongo Unified School District's compliance.

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

Description	Procedures Performed
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	Yes
Continuation Education	Yes
Instructional Time	Yes
Instructional Materials	Yes
Ratio of Administrative Employees to Teachers	Yes

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

Unmodified Opinion on Compliance with State Programs

In our opinion, Morongo Unified School District complied, in all material respects, with the types of compliance requirements referred to above for the year ended June 30, 2017.

Other Matter(s)

The results of our auditing procedures disclosed instances of noncompliance with the compliance requirements referred to previously, which are required to be reported in accordance with the *2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting,* and which are described in the accompanying schedule of findings and questioned costs as Findings 2017-001 and 2017-002. Our opinion on each state program is not modified with respect to these matters.

District's Responses to Findings

Morongo Unified School District's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Morongo Unified School District's responses were not subjected to the auditing procedures in the audit of compliance and, accordingly, we express no opinion on the responses.

Nigro & Nigro, PC

Murrieta, California
December 11, 2017

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

Board of Education
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 major federal programs for the year ended June 30, 2017. Morongo Unified School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

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

Auditors' Responsibility
Our responsibility is to express an opinion on compliance for each of 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, 2017.

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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 the District's internal control over compliance.

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

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

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

Nigro & Nigro, PC

Murrieta, California
December 11, 2017

Findings and Questioned Costs

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SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

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

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(s) identified not considered to be material weaknesses?	None reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance, Section 200.516	No

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
10.553, 10.555	Child Nutrition Cluster
84.027, 84.173	Special Education Cluster (IDEA)

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

State Awards

Type of auditor's report issued on compliance for state programs:	Unmodified

SECTION II - FINANCIAL STATEMENT FINDINGS

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

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

There were no financial statement findings in 2016-17.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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

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

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

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

Finding 2017-001: After School Education and Safety Program (40000)

Criteria: The District is required to report attendance on a semi-annual basis to accurately reflect the attendance related to the program per California Education Code Section 8483.55. The District must be able to provide written origination documentation to support the attendance reported on a semi-annual basis by site.

Condition: The District provided sign-in sheets for Oasis Elementary that did not support the summarized data that was reported in the semi-annual report to the State. The sign in and out sheets were missing signatures and time out, as well as reasons for early release for 60-80 students for the days of September 12-16, 2016 and December 5-9, 2016.

Questioned Cost: None. The difference in students served does not cause any of the sites to fail to meet the attendance goal.

Cause: The District was using manual sign in and sign out sheets and did not ensure all of the required elements were filled out properly.

Context: In reviewing supporting documentation, we noted that the students were not being properly signed in and out on the daily attendance sign-out sheets. This error was noted at one of the two schools selected for review; Oasis Elementary School being run by the 29 Palms Youth Club.

Effect: The District is unable to provide the necessary written records supporting the data reported to the State for the days above. There is no effect on funding as the District met the attendance goal for 2016-17.

Recommendation: The District should ensure sign in and out sheets are being completed properly, since this directly impacts the monthly attendance reported to the State on the semi-annual report.

Views of Responsible Officials: The District is in the process of reviewing procedures on a regular basis to ensure sign in and sign out sheets are completed accurately and in a timely manner. Additionally, the District no longer uses 29 Palms Youth Club and has contracted with a different vendor to handle the after school programs.

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

Finding 2017-002: School Accountability Report Card (72000)

Criteria: In accordance with Education Code §33126, the school is to provide an accountability report card to include safety, cleanliness, and adequacy of school facilities, to include any needed maintenance to ensure good repair. The condition reported should be supported by the school's Facilities Inspection Tool (FIT), School Facilities Condition Evaluation as required by Ed Code §17002. In addition, according to Education Code §35256, the Board of Education must publish the School Accountability Report Card (SARC) for each school by February 1st of each year.

Condition: It was noted that the School Facility Repair Status on the SARC for Friendly Hills Elementary, Black Rock Continuation, and Twenty Nine Palms High did not match the FIT form.

Context: The District utilizes DocuTrack services to fill out and post the SARCs. There were issues matching the SARC to the FIT form in three of the five SARCs that were tested.

Questioned Cost: None.

Cause: The SARC reported systems in “Fair” condition while the FIT form stated a “Good” rating for Friendly Hills Elementary, and “Exemplary” condition while the FIT form stated a “Good” rating for Black Rock Continuation and Twenty Nine Palms High.

Effect: Without proper compliance, the public will be misinformed on the status of the school’s facilities.

Recommendation: We recommend that an employee verify the information presented in the SARC. This information is essential to present the image of the school fairly to the public.

Views of Responsible Officials: The District has put procedures in place to make sure the SARC information gets reviewed and matches the FIT form to ensure accuracy prior to submission. Additionally, the District has created a schedule for SARC review to ensure timely submission.

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

NIGRO & NIGRO PC
A PROFESSIONAL ACCOUNTANCY CORPORATION

To the Board of Education
Morongo Unified School District
Twentynine Palms, California

In planning and performing our audit of the basic financial statements of Morongo Unified School District for the fiscal year ending June 30, 2017, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted matters that are an opportunity for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated December 11, 2017, on the financial statements of Morongo Unified School District.

ASSOCIATED STUDENT BODY (ASB) FUNDS

Observation: In our testing of cash disbursements at ***La Contenta Middle School*** and ***Yucca Valley High School*** we noted disbursements that were not approved by the District representative, the ASB advisor, and/or the student representative or were not approved until after the expenditure had already been incurred.

Recommendation: Education Code Section 48933(b) requires all expenditures from ASB funds be authorized by a student representative, an advisor, and a district representative (usually a principal or vice-principal) prior to disbursing the funds. As a "best practice", approval by required parties should be obtained before the actual commitment to purchase the items in order to ensure the expense is a proper use of student-body funds and falls within budgetary guidelines.

Observation: During our documentation of internal controls at ***Twentynine Palms Junior High School***, we noted that the ASB bookkeeper is currently a signer on the bank account. This creates a lack of segregation of duties, which is a critical part of a system of checks and balances. Good internal controls include segregating duties so that one person is not handling a transaction from beginning to end. Those who record the transaction should be separate from those who authorize and execute the transaction.

Recommendation: We therefore recommend that the bookkeeper be removed as an authorized signer on the ASB bank account to ensure one person is not authorizing and recording the same transaction.

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

Recommendation: We recommend that before any events are held, control procedures should be established that will allow for the reconciliation between money collected and fundraiser sales to ensure proceeds from fundraisers are deposited intact and into the correct accounts.

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DISTRICT OFFICE

Observation: During our testing of cash disbursements at the district office, we noted expenditures that were incurred without a Purchase Order or before a PO had been issued. Additionally, we noted the reimbursement of an expense which lacked an itemized receipt.

Recommendation: We recommend that the District obtain approval through a purchase order prior to making any purchases and should ensure that all expenditures are allowable. The District should adhere to the reimbursement policy adopted by the Board of Education, by requiring an itemized bill showing the separate items and each price to be reimbursed.

Observation: During our documentation of internal controls, we noted that there is no formal system to alert the Information Technology department when an employee is separating from employment. This could potentially lead to a lag between an employee's departure and their access to sensitive or restricted materials.

Recommendation: We recommend that Human Resources develop a process to timely and consistently alert IT when an employee is separating from employment so that IT can restrict their access or backup their systems in a timely manner.

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

Nigro & Nigro, PC

Murrieta, California
December 11, 2017