



ANNUAL FINANCIAL REPORT

JUNE 30, 2016

AZUSA UNIFIED SCHOOL DISTRICT

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FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

Governing Board
Azusa Unified School District
Azusa, California

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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 the Azusa Unified School District, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Change in Accounting Principles

As discussed in Note 16 to the financial statements, in 2016, the District began receiving a dedicated revenue source for its Adult Education Fund, which meets the definition of a special revenue fund under GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definition*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 13, budgetary comparison schedule on page 73, schedule of other postemployment benefits funding progress on page 74, schedule of the district's proportionate share of net pension liability on page 75, and the schedule of district contributions on page 76, 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 Azusa Unified School District's basic financial statements. The accompanying supplementary information such as the combining and individual nonmajor fund financial statements and Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the other supplementary information as listed on the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2016, on our consideration of the Azusa Unified School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Azusa Unified School District's internal control over financial reporting and compliance.

Varrinck, Jine, Day & Co., LLP

Rancho Cucamonga, California
December 5, 2016



Azusa Unified School District

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Board of Education

Yolanda Rodriguez-Peña	President
Helen Jaramillo	Vice President
Xilonin Cruz-Gonzalez	Clerk
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Jeri Bibles-Vogel	Member
Linda Kaminski, Ed.D	Superintendent

This section of Azusa Unified School District's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2016. Please read it in conjunction with the District's financial statements, which immediately follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

The financial statements presented herein include all of the activities of the District and its component units using the integrated approach as prescribed by Governmental Accounting Standards Board (GASB) Statement No. 34.

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

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

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

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

Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements is provided to explain the differences created by the integrated approach.

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

AZUSA UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Position and the Statement of Activities

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

These two statements report the District's net position and changes in them. Net position is the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources, which is one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net position will serve as a useful indicator of whether the financial position of the District is improving or deteriorating. Other factors to consider are changes in the District's property tax base and the condition of the District's facilities.

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

In the *Statement of Net Position* and the *Statement of Activities*, the District reports all of its activities as follows:

Governmental Activities - The District reports all of its services in this category. This includes the education of kindergarten through grade twelve students, adult education students, the operation of child development activities, and the on-going effort to improve and maintain buildings and sites. Property taxes, State income taxes, user fees, interest income, Federal, State, and local grants, as well as general obligation bonds, finance these activities.

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

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

AZUSA UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

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

Proprietary Funds - When the District charges users for the services it provides, whether to outside customers or to other departments within the District, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the *Statement of Net Position* and the *Statement of Revenues, Expenses, and Changes in Fund Net Position*. The District uses internal service funds to report activities that provide supplies and services for the District's other programs and activities, such as the District's Self-Insurance Fund. The internal service funds are reported with governmental activities in the government-wide financial statements.

THE DISTRICT AS A TRUSTEE

Reporting the District's Fiduciary Responsibilities

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

Financial Highlights

- The District's General Fund ending balance improved by \$6.71 million during the 2016-2017 fiscal year, from \$14.87 to \$21.46 million.
Total Governmental Fund revenues were \$128.4 million and expenditures were \$122.8 million.
- The district expended \$4.3 million on facility construction and modernization from \$28 million in proceeds from bond issuances.
- Grades K-12 average daily attendance declined by 354.8 ADA to 8,600.22 in 2015-2016.

AZUSA UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

THE DISTRICT AS A WHOLE

Net Position

The District's net position was \$(95.7) million for the fiscal year ended June 30, 2016. Of this amount, \$(89.1) million was unrestricted. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the governing board's ability to use that net position for day-to-day operations. Our analysis below, in summary form, focuses on the net position (Table 1) and change in net position (Table 2) of the District's governmental activities.

Table 1

(Amounts in millions)

	Governmental Activities	
	2016	2015
Assets		
Current and other assets	\$ 70.6	\$ 34.3
Capital assets	68.5	67.9
Total Assets	139.1	102.2
Deferred Outflows of Resources	19.5	8.4
Liabilities		
Current liabilities	17.9	15.0
Long-term obligations	137.6	103.9
Net pension liability	82.6	68.6
Total Liabilities	238.1	187.5
Deferred Inflows of Resources	16.2	18.5
Net Position		
Net investment in capital assets	(15.6)	(15.4)
Restricted	9.0	6.6
Unrestricted	(89.1)	(86.6)
Total Net Position	\$ (95.7)	\$ (95.4)

The \$(89.1) million in unrestricted net position of governmental activities represents the accumulated results of all past years' operations. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – decreased by 2.6 percent (\$(89.1) million compared to \$(86.6) million).

AZUSA UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

Changes in Net Position

The results of this year's operations for the District as a whole are reported in the *Statement of Activities* on page 15. Table 2 takes the information from the Statement, rounds off the numbers, and rearranges them slightly so you can see our total revenues for the year.

Table 2

(Amounts in millions)

	Governmental Activities	
	2016	2015
Revenues		
Program revenues:		
Charges for services	\$ 2.5	\$ 2.8
Operating grants and contributions	23.8	23.9
General revenues:		
Federal and State aid not restricted	78.4	69.4
Property taxes	21.4	12.9
Other general revenues	2.2	0.9
Total Revenues	128.3	109.9
Expenses		
Instruction-related	81.8	76.7
Pupil services	14.0	11.9
Administration	5.4	4.8
Maintenance and operations	11.0	10.3
Other	16.3	13.6
Total Expenses	128.5	117.3
Change in Net Position	\$ (0.2)	\$ (7.4)

Governmental Activities

As reported in the *Statement of Activities* on page 15, the cost of all of our governmental activities this year was \$128.5 million. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$21.4 million because the cost was paid by those who benefited from the programs (\$2.5 million) or by other governments and organizations who subsidized certain programs with grants and contributions (\$23.8 million). We paid for the remaining "public benefit" portion of our governmental activities with \$80.6 million in Federal and State funds, and with other revenues, like interest and general entitlements.

AZUSA UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

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

Table 3

(Amounts in millions)	Total Cost of Services		Net Cost of Services	
	2016	2015	2016	2015
Instruction	\$ 68.2	\$ 63.1	\$ 53.7	\$ 47.8
Instruction related services	13.6	13.6	10.9	11.5
Pupil services	14.0	11.9	6.5	5.6
Administration	5.4	4.8	4.8	4.4
Maintenance and operations	11.0	10.3	10.9	9.7
Other	16.3	13.6	15.4	11.7
Total	\$ 128.5	\$ 117.3	\$ 102.2	\$ 90.7

The District projected an increase in net position of approximately \$2.77 million. Revenues were \$2.16 million more than expected and expenditures were \$1.56 million less than originally projected. Other State Sources were approximately \$3.0 million of the increase in revenue State grants.

Salaries and employee benefit expenditures were \$3.18 million more than expected as a result of salary savings from vacancies and the recording of the STRS on-behalf contribution from the State.

AZUSA UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$53.4 million, which is an increase of \$33.7 million from last year (Table 4).

Table 4

(Amounts in millions)	Balances and Activity			
	July 1, 2015	Revenues	Expenditures	June 30, 2016
General Fund, as restated	\$ 14.8	\$ 113.3	\$ 106.7	\$ 21.4
Adult Education Fund, as restated	0.1	1.5	1.2	0.4
Cafeteria Fund	2.4	5.9	6.7	1.6
Building Fund	0.3	28.7	4.8	24.2
Capital Facilities Fund	0.4	0.2	0.3	0.3
Bond Interest and Redemption Fund	1.7	7.1	3.3	5.5
Total	\$ 19.7	\$ 156.7	\$ 123.0	\$ 53.4

The primary reasons for this net increase to our combined fund balances are as follows:

Our General Fund is the principal operating fund. The General Fund includes both restricted and unrestricted resources. The fund balance in the General Fund increased \$6.6 million to \$21.5 million. Unrestricted, unassigned fund balance was \$15.6 million, and the restricted fund balance was \$2.21 million which was a result of one-time revenues from the State.

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final amendment to the budget was adopted on May 3, 2016. (A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in our annual report on page 73.)

- Overall budgeted revenues increased by 1.45 percent from the original budget to Final budget in 2015-2016 due to budgeting of Federal carry-over amounts and receipt of additional State funds.
- Overall budget expenditures increased by 3.5 percent due to an increase in books and supplies purchases made during the year.

AZUSA UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2016, the District had \$68.5 million in a broad range of capital assets (net of depreciation), including land, buildings, furniture, and equipment. This amount represents a net increase (including additions, deductions, and depreciation) of \$0.6 million, or 0.9 percent, from last year (Table 5).

Table 5

(Amounts in millions)

	Governmental Activities	
	2016	2015
Land and construction in progress	\$ 7.6	\$ 4.4
Buildings and improvements	59.9	63.0
Equipment	1.0	0.5
Total	\$ 68.5	\$ 67.9

Net capital assets increased by \$0.6 million as a result of increasing accumulated depreciation and an increase in the construction in progress during the year.

Several capital projects are planned for the 2016-2017 year, including the completion of roofing and HVAC projects, fencing, and modernization of classrooms.

Long-Term Obligations

At the end of this year, the District had \$137.6 million in long-term obligations versus \$104.0 million last year, an increase of 32.3 percent. Those long-term obligations consisted of:

Table 6

(Amounts in millions)

	Governmental Activities	
	2016	2015
General obligation bonds (financed with property taxes)	\$ 126.4	\$ 95.5
Certificates of participation	4.8	4.8
Voluntary retirement program	3.2	1.0
Compensated absences	0.4	0.4
Other postemployment benefits	2.6	2.2
Claims liability	0.2	0.1
Total	\$ 137.6	\$ 104.0

The District's general obligation bond rating continues to be AA- as rated by Standard & Poors. The State limits the amount of general obligation debt that districts can issue to five percent of the assessed value of all taxable property within the District's boundaries. The District's outstanding general obligation debt is significantly below this statutorily-imposed limit.

AZUSA UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

Other obligations include certificates of participation, voluntary retirement program, compensated absences payable, postemployment benefits (not including health benefits) and other long-term obligations. We present more detailed information regarding our long-term obligations in Note 9 of the financial statements.

Net Pension Liability (NPL)

At year-end, the District had a net pension liability of \$82.6 million as a result of the implementation of GASB Statement No. 68 during the prior fiscal year. The District's proportionate share of net pension liability for CalSTRS (State Teacher Retirement System) is 0.0972 percent. The District contributed 10.73 percent towards certificated employee payroll costs (\$5.1 million). The District's proportionate share of net pension liability for CalPERS is 0.1163 percent. The District contributed 11.85 percent towards classified employee payroll costs (\$1.6 million).

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In considering the District Budget for the 2016-2017 year, the governing board and management used the following criteria:

1. The District developed the budget for 2016-2017 utilizing the Local Control Funding Formula (LCFF).
2. The District included 54.18 percent in gap funding under LCFF calculations resulting in average funding of \$10,054 per ADA. This represents an increase/decrease of 5.6 percent per ADA from the prior year.
3. The District's average daily attendance is projected to decline for 2016-2017 at 8,355. ADA is calculated at 96 percent of projected enrollment 8,704.
4. The District's projected unduplicated pupil count projections for 7,114 or 81.7 percent.
5. Average Teacher Salary for 2016-2017 for 187 days of teaching is \$84,674.
6. Budget was built with the following FTE (full-time equivalent) allocations:
 - a. 460 (Certificated Staff)
 - b. 189 (Classified Staff)
 - c. 90 (Management/Supervisors/Confidential Staff)
7. Fiscal year 2016-2017 includes salary increase for Certificated, Classified, and Management of 4.12 percent effective July 1, 2016.
8. The 2016-2017 budget includes \$1.9 million one-time mandate funds.
9. Restoration of 3.0 percent contribution to Restricted Routine Maintenance Account.
10. Increase in CalSTRS and CalPERS rates.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact Eugenio D. Villa, Assistant Superintendent, in Business Services, at Azusa Unified School District, 546 South Citrus Avenue Azusa, California 91702, or e-mail at evilla@azusa.org.

AZUSA UNIFIED SCHOOL DISTRICT

STATEMENT OF NET POSITION JUNE 30, 2016

	Governmental Activities
ASSETS	
Deposits and investments	\$ 64,981,293
Receivables	5,287,164
Stores inventories	380,586
Other current assets	118
Capital assets	
Land and construction in process	7,615,115
Capital assets being depreciated	154,379,341
Accumulated depreciation	(93,464,647)
Total Capital Assets	68,529,809
Total Assets	139,178,970
DEFERRED OUTFLOWS OF RESOURCES	
Deferred charge on refunding	2,356,631
Deferred outflows of resources related to pensions	17,158,662
Total Deferred Outflows	19,515,293
LIABILITIES	
Accounts payable	16,460,189
Interest payable	1,260,268
Unearned revenue	242,976
Claims liability	175,000
Long-term obligations:	
Current portion of long-term obligations other than pensions	4,690,198
Noncurrent portion of long-term obligations other than pensions	132,718,295
Total Long-Term Obligations	137,408,493
Aggregate net pension liability	82,583,159
Total Liabilities	238,130,085
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to pensions	16,237,737
NET POSITION	
Net investment in capital assets	(15,620,783)
Restricted for:	
Debt service	4,274,106
Capital projects	201,381
Educational programs	2,211,152
Other activities	2,406,434
Unrestricted	(89,145,849)
Total Net Position	\$ (95,673,559)

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

AZUSA UNIFIED SCHOOL DISTRICT

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2016

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenues and Changes in Net Position
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Instruction	\$ 68,246,949	\$ 1,640,127	\$ 12,905,238	\$ (53,701,584)
Instruction-related activities:				
Supervision of instruction	4,283,673	7	1,569,277	(2,714,389)
Instructional library, media, and technology	2,423,914	-	280,388	(2,143,526)
School site administration	6,862,694	5,315	818,811	(6,038,568)
Pupil services:				
Home-to-school transportation	874,421	23,706	-	(850,715)
Food services	6,327,140	201,303	5,545,245	(580,592)
All other pupil services	6,796,367	307,053	1,435,797	(5,053,517)
Administration:				
Data processing	799,528	-	-	(799,528)
All other administration	4,621,335	10,088	657,583	(3,953,664)
Plant services	10,951,191	(1,691)	(36,233)	(10,989,115)
Ancillary services	478,722	-	-	(478,722)
Enterprise services	175,000	-	-	(175,000)
Interest on long-term obligations	7,317,351	-	-	(7,317,351)
Other outgo	3,645,770	316,314	635,557	(2,693,899)
Depreciation (unallocated) ¹	4,728,506	-	-	(4,728,506)
Total Governmental Activities	\$ 128,532,561	\$ 2,502,222	\$ 23,811,663	(102,218,676)
General revenues and subventions:				
				14,050,338
Property taxes, levied for general purposes				6,991,890
Property taxes, levied for debt service				386,739
Taxes levied for other specific purposes				78,375,949
Federal and State aid not restricted to specific purposes				352,186
Interest and investment earnings				1,812,249
Miscellaneous				
Subtotal, General Revenues				101,969,351
Change in Net Position				(249,325)
Net Position - Beginning				(95,424,234)
Net Position - Ending				\$ (95,673,559)

¹ This amount excludes any depreciation that is included in the direct expenses of the various programs.

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

AZUSA UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS BALANCE SHEET JUNE 30, 2016

	General Fund	Building Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS				
Deposits and investments	\$ 30,782,028	\$ 25,831,513	\$ 7,774,730	\$ 64,388,271
Receivables	4,554,212	58,808	673,553	5,286,573
Due from other funds	-	-	623	623
Stores inventories	272,725	-	107,861	380,586
Other current assets	118	-	-	118
Total Assets	\$ 35,609,083	\$ 25,890,321	\$ 8,556,767	\$ 70,056,171
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 13,946,265	1,731,631	\$ 775,375	\$ 16,453,271
Due to other funds	623	-	-	623
Unearned revenue	203,341	-	39,635	242,976
Total Liabilities	14,150,229	1,731,631	815,010	16,696,870
Fund Balances:				
Nonspendable	297,725	1,556	127,862	427,143
Restricted	2,211,152	24,157,134	7,464,676	33,832,962
Assigned	3,352,962	-	149,219	3,502,181
Unassigned	15,597,015	-	-	15,597,015
Total Fund Balances	21,458,854	24,158,690	7,741,757	53,359,301
Total Liabilities and Fund Balances	\$ 35,609,083	\$ 25,890,321	\$ 8,556,767	\$ 70,056,171

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

AZUSA UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION JUNE 30, 2016

Total Fund Balance - Governmental Funds	\$ 53,359,301
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**Amounts Reported for Governmental Activities in the Statement of Net
Position are Different Because:**

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.

The cost of capital assets is	\$ 161,994,456
Accumulated depreciation is	<u>(93,464,647)</u>

Net Capital Assets	68,529,809
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In governmental funds, deferred amounts on refunding are not recognized until the period in which it matures and is paid. On the government-wide financial statements, it is recognized in the period that it is incurred.	2,356,631
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In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. On the government-wide financial statements, unmatured interest on long-term obligations is recognized when it is incurred.	(1,260,268)
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An internal service fund is used by the District's management to charge the costs of the property and liability and dental insurance programs to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.	411,695
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Expenditures relating to contributions made to pension plans were recognized on the modified accrual basis, but are not recognized on the accrual basis.	6,707,937
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The net change in proportionate share of net pension liability as of the measurement date is not recognized as an expenditure under the modified accrual basis, but is recognized on the accrual basis over the expected average remaining service life of members receiving pension benefits.	1,301,235
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The difference between projected and actual earnings on pension plan investments are not recognized on the modified accrual basis, but are recognized on the accrual basis as an adjustment to pension expense.	(5,921,216)
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The differences between expected and actual experience in the measurement of the total pension liability are not recognized on the modified accrual basis, but are recognized on the accrual basis over the expected average remaining service life of members receiving pension benefits.	(113,442)
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The accompanying notes are an integral part of these financial statements.

AZUSA UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION, (Continued) JUNE 30, 2016

The changes of assumptions is not recognized as an expenditure under the modified accrual basis, but is recognized on the accrual basis over the expected average remaining service life of members receiving pension benefits. \$ (1,053,589)

Net pension liability is not due and payable in the current period, and is not reported as a liability in the funds. (82,583,159)

Long-term obligations, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.

Long-term obligations at year-end consist of:

General obligation bonds	\$ 104,644,741
Premium on general obligation bonds	1,101,172
Discount on general obligation bonds	(246,531)
Certificates of participation	4,920,000
Discount on certificates of participation	(95,130)
Compensated absences (vacations)	435,158
Supplemental early retirement plans	3,172,594
Other postemployment benefits (OPEB)	2,621,854

In addition, the District has issued "capital appreciation" bonds. The accretion of interest on those bonds to date is the following.

20,854,635

Total Long-Term Obligations

(137,408,493)

Total Net Position - Governmental Activities

\$(95,673,559)

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

AZUSA UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2016

	General Fund	Building Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES				
Local Control Funding Formula	\$ 85,620,164	\$ -	\$ -	\$ 85,620,164
Federal sources	6,971,157	-	5,101,194	12,072,351
Other State sources	13,449,982	-	1,710,349	15,160,331
Other local sources	7,303,580	595,729	7,643,326	15,542,635
Total Revenues	113,344,883	595,729	14,454,869	128,395,481
EXPENDITURES				
Current				
Instruction	65,422,757	-	642,247	66,065,004
Instruction-related activities:				
Supervision of instruction	4,258,553	-	13,082	4,271,635
Instructional library, media and technology	2,415,039	-	-	2,415,039
School site administration	6,385,586	-	453,251	6,838,837
Pupil services:				
Home-to-school transportation	935,270	-	-	935,270
Food services	11,483	-	6,467,450	6,478,933
All other pupil services	6,670,141	-	108,488	6,778,629
Administration:				
Data processing	796,603	-	-	796,603
All other administration	4,268,844	-	340,966	4,609,810
Plant services	11,353,768	-	(44,533)	11,309,235
Facility acquisition and construction	-	4,304,174	356,711	4,660,885
Ancillary services	477,036	-	-	477,036
Other outgo	3,378,332	-	-	3,378,332
Debt service				
Principal	-	-	790,000	790,000
Interest and other	-	535,174	2,460,301	2,995,475
Total Expenditures	106,373,412	4,839,348	11,587,963	122,800,723
Excess (Deficiency) of Revenues Over Expenditures	6,971,471	(4,243,619)	2,866,906	5,594,758
Other Financing Sources (Uses)				
Transfers in	4,675	-	232,763	237,438
Transfers out	(262,763)	-	(4,675)	(267,438)
Other sources - proceeds from bond issuance	-	28,000,000	-	28,000,000
Other sources - premium on bond issuance	-	129,364	-	129,364
Net Financing Sources (Uses)	(258,088)	28,129,364	228,088	28,099,364
NET CHANGE IN FUND BALANCES	6,713,383	23,885,745	3,094,994	33,694,122
Fund Balance - Beginning	14,866,869	272,945	4,525,365	19,665,179
Restatement	(121,398)	-	121,398	-
Fund Balance - Ending	\$ 21,458,854	\$ 24,158,690	\$ 7,741,757	\$ 53,359,301

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

AZUSA UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2016

Total Net Change in Fund Balances - Governmental Funds **\$ 33,694,122**

**Amounts Reported for Governmental Activities in the
Statement of Activities are Different Because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures; however, for governmental activities, those costs are shown in the Statement of Net Position and allocated over their estimated useful lives as annual depreciation expenses in the Statement of Activities.

This is the amount by which depreciation exceeds capital outlays in the period.

Capital outlays	\$ 6,121,992	
Depreciation expense	<u>(4,728,506)</u>	
Net Expense Adjustment		1,393,486

Expenditures that were capitalized in a previous period were written off in the current year. The write-off is reported in the government-wide Statement of Net Assets, but is not recorded in the governmental funds. (714,386)

In the Statement of Activities, certain operating expenses, such as compensated absences (vacations) and special termination benefits (retirement incentives) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). Vacation used was less than the amounts earned by \$26,163. Special termination benefits earned were more than the amount used by \$2,169,198. (2,195,361)

In the governmental funds, pension costs are based on employer contributions made to pension plans during the year. However, in the Statement of Activities, pension expense is the net effect of all changes in the deferred outflows, deferred inflows and net pension liability during the year. (304,957)

Proceeds received from General Obligation Bonds is a revenue in the governmental funds, but it increases long-term obligations in the Statement of Net Position and does not affect the Statement of Activities. (28,000,000)

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

General obligation bonds	790,000
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The accompanying notes are an integral part of these financial statements.

AZUSA UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES, (Continued) FOR THE YEAR ENDED JUNE 30, 2016

Governmental funds report the effects of premiums and deferred amounts on a refunding when debt is first issued, whereas the amounts are deferred and amortized on the Statement of Activities. This amount is the net effect of these related items.

Premium on bond issuance	\$ (129,364)	
Amortization of deferred charge on refunding	(322,159)	
Amortization of premium on bonds	126,494	
Amortization of discount on bonds and certificates of participation	<u>(11,713)</u>	
Net Expense Adjustment		\$ (336,742)

In governmental funds, other postemployment benefits (OPEB) costs are recognized when employer contributions are made. In the Statement of Activities, OPEB costs are recognized on the accrual basis. This year, the difference between OPEB costs and the actual employer contributions was:

(400,700)

Interest on long-term obligations is recorded as an expenditure in the funds when it is due; however, in the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported on the Statement of Activities is a result of two factors. First, accrued interest on general obligation bonds and certificates of participation increased by \$450,079. Second, \$3,664,419 of additional accumulated interest accreted on the District's general obligation bonds.

(4,114,498)

An Internal Service Fund is used by the District's management to charge the costs of the workers' compensation and dental insurance programs to the individual funds. The net revenue of the Internal Service Fund is reported with governmental activities.

(60,289)

Change in Net Position of Governmental Activities

\$ (249,325)

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

AZUSA UNIFIED SCHOOL DISTRICT

PROPRIETARY FUNDS STATEMENT OF NET POSITION JUNE 30, 2016

	Governmental Activities - Internal Service Fund
ASSETS	
Current Assets	
Deposits and investments	\$ 593,022
Receivables	591
Total Assets	<u>593,613</u>
LIABILITIES	
Current Liabilities	
Accounts payable	\$ 6,918
Claim liabilities	175,000
Total Current Liabilities	<u>181,918</u>
NET POSITION	
Restricted	<u>\$ 411,695</u>

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

AZUSA UNIFIED SCHOOL DISTRICT

PROPRIETARY FUNDS STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION FOR THE YEAR ENDED JUNE 30, 2016

	Governmental Activities - Internal Service Fund
OPERATING REVENUES	
Local and intermediate sources	<u>\$ 1,462,554</u>
OPERATING EXPENSES	
Other operating costs	<u>1,554,461</u>
Operating Loss	<u>(91,907)</u>
NONOPERATING REVENUES	
Interest income	<u>1,618</u>
Loss before Transfers	(90,289)
Transfers in	<u>30,000</u>
Change in Net Position	(60,289)
Total Net Position - Beginning	<u>471,984</u>
Total Net Position - Ending	<u><u>\$ 411,695</u></u>

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

AZUSA UNIFIED SCHOOL DISTRICT

PROPRIETARY FUNDS STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2016

	Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash receipts from customers	\$ 1,462,413
Cash payments to other suppliers of goods or services	(1,268,112)
Net Cash Provided by Operating Activities	<u>194,301</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfer from other funds	<u>30,000</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	<u>1,618</u>
Net Increase in Cash and Cash Equivalents	225,919
Cash and Cash Equivalents - Beginning	367,103
Cash and Cash Equivalents - Ending	<u><u>\$ 593,022</u></u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating loss	\$ (91,907)
Changes in assets:	
Receivables	(141)
Prepaid expenditures	194,431
Accrued liabilities	91,918
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 194,301</u></u>

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

AZUSA UNIFIED SCHOOL DISTRICT

FIDUCIARY FUNDS

STATEMENT OF NET POSITION

JUNE 30, 2016

	Agency Funds
ASSETS	
Deposits and investments	<u>\$ 454,747</u>
LIABILITIES	
Accounts payable	\$ 6,518
Due to student groups	<u>448,229</u>
Total Liabilities	<u>\$ 454,747</u>

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

AZUSA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Azusa Unified School District (the District) was organized in 1961 under the laws of the State of California. The District operates under a locally elected five-member Board form of government and provides educational services to grades Kindergarten - 12 as mandated by the State and/or Federal agencies. The District operates eleven elementary schools, three middle schools, two high schools, and two alternative education schools.

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

Component Units

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 unit has 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 is included in the financial statements of the District. The component unit, although a legally separate entity, is reported in the financial statements using the blended presentation method as if it were part of the District's operations because the governing board of the component unit is essentially the same as the governing board of the District and because its purpose is to finance the construction of facilities to be used for the direct benefit of the District.

The Azusa Unified School District Facilities Corporation's (the Corporation) financial activity is presented in the financial statements in the Building Fund. Certificates of participation issued by the Corporation are included as long-term obligations in the government-wide financial statements. Individually-prepared financial statements are not prepared for Corporation.

Basis of Presentation - Fund Accounting

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

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

AZUSA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Major Governmental Funds

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

Under the flexibility provisions of current statute that allow certain formerly restricted revenues to be used for any educational purpose, Fund 14, Deferred Maintenance Fund and Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects do not currently meet the GASB Statement No. 54 definition of special revenue funds as these funds are no longer primarily composed of restricted or committed revenue sources.

As the District has not taken formal action to commit the flexed revenues formerly restricted to these programs to the continued operation of the original programs, the revenue within these funds would be considered to be available for general educational purposes, resulting in Fund 14, Deferred Maintenance Fund and Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects being combined with the General Fund for presentation in these audited financial statements.

As a result, the General Fund reflects an increase in fund balance of \$5,566,221.

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

Non-Major Governmental Funds

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

Adult Education Fund The Adult Education Fund is used to account separately for Federal, State, and local revenues for adult education programs and is to be expended for adult education purposes only.

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

AZUSA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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

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

State School Building Lease-Purchase Fund The State School Building Lease-Purchase Fund is used to account for state apportionments received for construction and modernization of school facilities.

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

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

Tax Override Fund This fund was formerly used to account for voted indebtedness to be financed from ad valorem tax levies.

Proprietary Funds Proprietary funds are used to account for activities that are more business-like than government-like in nature. Business-type activities include those for which a fee is charged to external users or to other organizational units of the local education agency, normally on a full cost-recovery basis. Proprietary funds are generally intended to be self-supporting and are classified as enterprise or internal service. The District has the following proprietary funds:

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

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

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

AZUSA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Basis of Accounting - Measurement Focus

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

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

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

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

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

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

AZUSA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Fiduciary Funds Fiduciary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. Fiduciary funds are excluded from the government-wide financial statements because they do not represent resources of the District.

Revenues – Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter, to be used to pay liabilities of the current fiscal year. 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 restrictions. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

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

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

Cash and Cash Equivalents

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

AZUSA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Investments

Investments held at June 30, 2016, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in the county pool are determined by the program sponsor.

Stores Inventories

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

Capital Assets and Depreciation

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

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

Capital assets in the proprietary funds are capitalized in the fund in which they are utilized. The valuation basis for proprietary fund capital assets is the same as those used for the capital assets of governmental funds.

Depreciation is computed using the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings and improvements, 20 to 50 years; furniture, equipment, and vehicles, 5 to 15 years.

Interfund Balances

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

AZUSA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Compensated Absences

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

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

Accrued Liabilities and Long-Term Obligations

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

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

Debt Issuance Costs, Premiums and Discounts

In the government-wide financial statements, long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. Debt premiums and discounts are amortized over the life of the bonds using the straight-line method.

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

AZUSA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position also reports deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The District reports deferred outflows of resources for the unamortized loss on the refunding of general obligation bonds and for pension related items.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The District reports deferred inflows of resources for pension related items.

Pensions

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

Fund Balances - Governmental Funds

As of June 30, 2016, fund balances of the governmental funds are classified as follows:

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

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

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

Unassigned - all other spendable amounts.

Spending Order Policy

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

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Minimum Fund Balance Policy

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

Net Position

Net position represents the difference between assets and liabilities. Net position net of investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. The government-wide financial statements report \$9,093,073 of restricted net position which is restricted by enabling legislation.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are charges to other funds for self-insurance. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Interfund Activity

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

Estimates

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

AZUSA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Budgetary Data

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

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

Property Tax

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

Change in Accounting Principles

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

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

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

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NOTES TO FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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

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

New Accounting Pronouncements

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

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

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

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

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

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

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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

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

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

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

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

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

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

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

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

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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

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

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

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

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

AZUSA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

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

Governmental activities	\$ 64,981,293
Fiduciary funds	<u>454,747</u>
Total Deposits and Investments	<u>\$ 65,436,040</u>

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

Cash on hand and in banks	\$ 1,004,671
Cash in revolving	46,556
Investments	<u>64,384,813</u>
Total Deposits and Investments	<u>\$ 65,436,040</u>

Policies and Practices

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

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

AZUSA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

General Authorizations

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

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District manages its exposure to interest rate risk by investing in the County pool. The District maintains an investment of \$64,384,813 with the Los Angeles County Investment Pool. This investment has an average weighted maturity of 608 days.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investment in the Los Angeles County Investment Pool is not required to be rated, nor has it been rated as of June 30, 2016.

AZUSA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does have a policy for custodial credit risk for deposits. However, the *California Government Code* requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. 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. At June 30, 2016, the District's bank balance of \$212,994 was exposed to custodial credit risk because it was insured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

NOTE 3 - FAIR VALUE MEASUREMENTS

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

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

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

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

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

AZUSA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

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

Investment Type	Reported Amount	Uncategorized
Los Angeles County Investment Pool	<u>\$ 64,384,813</u>	<u>\$ 64,384,813</u>

NOTE 4 - RECEIVABLES

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

	General Fund	Building Fund	Non-Major Governmental Funds	Internal Service Fund	Total Governmental Activities
Federal Government					
Categorical aid	\$ 1,453,295	\$ -	\$ 612,855	\$ -	\$ 2,066,150
State Government					
LCFF apportionment	251,296	-	-	-	251,296
Categorical aid	322,209	-	39,972	-	362,181
Lottery	1,030,243	-	-	-	1,030,243
Local Government					
Interest	55,384	58,808	5,249	591	120,032
Other local educational agencies	1,223,545	-	-	-	1,223,545
Other Local Sources	218,240	-	15,477	-	233,717
Total	<u>\$ 4,554,212</u>	<u>\$ 58,808</u>	<u>\$ 673,553</u>	<u>\$ 591</u>	<u>\$ 5,287,164</u>

AZUSA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

NOTE 5 - CAPITAL ASSETS

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

	Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	\$ 1,491,489	\$ -	\$ -	\$ 1,491,489
Construction in progress	2,879,537	5,453,486	2,209,397	6,123,626
Total Capital Assets Not Being Depreciated	4,371,026	5,453,486	2,209,397	7,615,115
Capital Assets Being Depreciated:				
Land improvements	4,328,100	19,733	-	4,347,833
Buildings and improvements	140,759,129	1,495,011	-	142,254,140
Furniture and equipment	7,425,979	648,773	297,384	7,777,368
Total Capital Assets Being Depreciated	152,513,208	2,163,517	297,384	154,379,341
Total Capital Assets	156,884,234	7,617,003	2,506,781	161,994,456
Less Accumulated Depreciation:				
Land improvements	3,436,295	86,377	-	3,522,672
Buildings and improvements	78,707,438	4,436,196	-	83,143,634
Furniture and equipment	6,889,792	205,933	297,384	6,798,341
Total Accumulated Depreciation Governmental Activities	89,033,525	4,728,506	297,384	93,464,647
Capital Assets, Net	<u>\$ 67,850,709</u>	<u>\$ 2,888,497</u>	<u>\$ 2,209,397</u>	<u>\$ 68,529,809</u>

Depreciation expense was charged as unallocated on the Statement of Activities.

NOTE 6 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund receivable and payable balances at June 30, 2016, between major and non-major governmental funds are as follows:

The balance of \$623 due to the Cafeteria Non-Major Fund from the General Fund resulted from payroll costs due to employee final pay.

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

Operating Transfers

Interfund transfers for the year ended June 30, 2016, consisted of the following:

Transfer To	Transfer From		
	General Fund	Non-Major Governmental Funds	Total
General Fund	\$ -	\$ 4,675	\$ 4,675
Non-Major Governmental Funds	232,763	-	232,763
Internal Service Funds	30,000	-	30,000
Total	<u>\$ 262,763</u>	<u>\$ 4,675</u>	<u>\$ 267,438</u>

The General Fund transferred to the Cafeteria Non-Major Governmental Fund for program contribution.	\$ 232,763
The General Fund transferred to the Internal Service Fund for employee contributions to the benefit plan.	30,000
The Capital Facilities Non-Major Governmental Fund transferred to the General Fund for reimbursement of project costs.	4,675
Total	<u>\$ 267,438</u>

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

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

NOTE 7 - ACCOUNTS PAYABLE

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

	General Fund	Building Fund	Non-Major Governmental Funds	Internal Service Funds	Total Governmental Activities	Fiduciary Fund
Salaries and benefits	\$ 8,995,205	\$ 1,592	\$ 262,781	\$ 6,918	\$ 9,266,496	\$ -
LCFF apportionment	1,934,279	-	-	-	1,934,279	-
Supplies and services	590,224	10,890	345,786		946,900	
Other services	2,247,639	-	159,215	-	2,406,854	6,518
Construction	-	1,662,074	-	-	1,662,074	-
Other significant payables	178,918	57,075	7,593	-	243,586	-
Total	<u>\$13,946,265</u>	<u>\$1,731,631</u>	<u>\$ 775,375</u>	<u>\$ 6,918</u>	<u>\$16,460,189</u>	<u>\$ 6,518</u>

NOTE 8 - UNEARNED REVENUE

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

	General Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal financial assistance	\$ 91,159	\$ 39,635	\$ 130,794
State categorical aid	112,182	-	112,182
Total	<u>\$ 203,341</u>	<u>\$ 39,635</u>	<u>\$ 242,976</u>

AZUSA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

NOTE 9 - LONG-TERM OBLIGATIONS

Summary

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

	Balance July 01, 2015	Additions	Deductions	Balance June 30, 2016	Due in One Year
General obligation bonds	\$ 94,624,957	\$ 31,664,419	\$ 790,000	\$ 125,499,376	\$ 3,855,000
Premium on bond issuance	1,098,302	129,364	126,494	1,101,172	-
Discount on issuance	(254,199)	-	(7,668)	(246,531)	-
Certificates of participation	4,920,000	-	-	4,920,000	-
Discount on issuance	(99,175)	-	(4,045)	(95,130)	-
Accumulated vacation - net	408,995	26,163	-	435,158	-
Supplemental early retirement plans	1,003,396	2,503,663	334,465	3,172,594	835,198
Other postemployment benefits	2,221,154	754,672	353,972	2,621,854	-
Total	<u>\$ 103,923,430</u>	<u>\$ 35,078,281</u>	<u>\$ 1,593,218</u>	<u>\$ 137,408,493</u>	<u>\$ 4,690,198</u>

Payments for General obligation bonds are made in the Bond Interest and Redemption Fund. Payments for certificates of participation are made by the Building Fund. Accrued vacation will be paid for by the fund in which the employee worked. The Supplemental early retirement plans and other postemployment benefits are paid by the General Fund.

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2015	Issued	Accreted	Redeemed	Bonds Outstanding June 30, 2016
7/10/2002	7/1/2027	2.50 to 5.375	\$ 29,998,763	\$ 4,727,298	\$ -	\$ 151,945	\$ -	\$ 4,879,243
1/7/2010	8/1/2049	2.00 to 7.50	57,455,978	70,717,659	-	3,512,474	290,000	73,940,133
9/1/2011	7/1/2024	2.00 to 5.00	20,285,000	19,180,000	-	-	500,000	18,680,000
8/4/2015	8/1/2044	2.00 to 5.00	28,000,000	-	28,000,000	-	-	28,000,000
				<u>\$ 94,624,957</u>	<u>\$ 28,000,000</u>	<u>\$ 3,664,419</u>	<u>\$ 790,000</u>	<u>\$ 125,499,376</u>

AZUSA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

2002 General Obligation Bonds, Series 2002

On July 10, 2002, the District issued General Obligation Bonds, Election of 2002, Series 2002, in the amount of \$29,998,763. The bonds were authorized at an election of the registered voters of the District held on March 5, 2002, at which more than 55 percent of the persons voting on the proposition voted to authorize the issuance and sale of \$75 million of general obligation bonds. The issue consisted of Current Interest Serial Bonds of \$22,590,000 with stated interest rates ranging from 2.5 percent to 5.375 percent and fully maturing on July 1, 2022, Term Bonds of \$5,330,000 with a stated interest rate of 5.0 percent due July 1, 2027, and Capital Appreciation Serial Bonds of \$2,078,763 with a final maturity of July 1, 2027. The proceeds from the sale of the bonds were used to finance the renovation, construction, acquisition, and improvement of local school facilities within the District. At June 30, 2016, the principal balance outstanding was \$4,879,243.

2010 General Obligation Revenue Bonds

On January 7, 2010, the District issued \$57,455,978 of General Obligation Revenue Bonds through the California School Facilities Financing Authority (the "Authority"). The net proceeds of \$53,357,775 (after issuance costs of \$3,799,143 and original issue discount of \$299,060) were used to advance refund \$59.0 million of the District's outstanding 2004 certificates of participation, in addition to paying the costs of issuance of the bonds. The bonds have interest rates ranging from 2.0 percent to 7.50 percent, with a final maturity date of August 1, 2049.

As a result of the advance refunding, the refunded certificates of \$59.0 million are considered to be defeased, and the related liability for the certificates has been removed from the District's financial statements. Amounts paid to the escrow agent in excess of the outstanding debt at the time of the payment are recorded as deferred charges on refunding on the statement of net position and are amortized to interest expense over the life of the liability. Deferred charges on refunding of \$1,733,759 remain to be amortized. At June 30, 2016, the principal balance outstanding was \$73,940,133 and unamortized discount was \$246,531.

2011 General Obligation Refunding Bonds

On September 1, 2011, the District issued \$20,285,000 of General Obligation Refunding Bonds. The Bonds consist of serial bonds bearing fixed rates ranging from 2.0 percent to 5.0 percent with annual maturities from July 2012 through July 2024. The net proceeds of \$21,442,821 (after issuance costs of \$428,613 and original issue premium of \$1,586,434) were used to refund a portion of the District's outstanding General Obligation Bonds, Election of 2002, Series 2002.

As a result, the refunded bonds are considered to be defeased, and the related liability for the bonds has been removed from the District's liabilities. Amounts paid to the refunded bond escrow agent in excess of the outstanding debt at the time of payment are recorded as deferred charges on refunding on the statement of net position and are amortized to interest expense over the life of the liability. Deferred charges on refunding of \$622,872 remain to be amortized. As of June 30, 2016, the principal balance outstanding was \$18,680,000 and unamortized premium were \$976,267.

AZUSA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

General Obligation Bonds, Election of 2014, Series A

On August 4, 2015, the District issued General Obligation Bonds, Election of 2014, Series A, in the amount of \$28,000,000. The bonds were authorized at an election of the registered voters of the District held on November 4, 2014, at which more than 55 percent of the persons voting on the proposition voted to authorize the issuance and sale of \$92 million of general obligation bonds. The bonds were issued to finance certain authorized projects approved by the voters of the District. The bonds have a final maturity date of August 1, 2044, with interest rates ranging from 2.00 to 5.00 percent. The District received net proceeds of \$28,129,364 (representing the principal amount of \$28,000,000 plus a premium of \$129,364). At June 30, 2016, the principal balance outstanding was \$28,000,000 and unamortized premium were \$124,905.

Debt Service Requirements to Maturity

The bonds mature through 2050 as follows:

Fiscal Year	Principal Including Accreted Interest	Accreted Interest	Compound Interest Paid at Maturity	Total
2017	\$ 3,843,996	\$ 11,004	\$ 3,155,566	\$ 7,010,566
2018	3,622,621	7,379	3,351,355	6,981,355
2019	1,940,135	29,865	3,237,130	5,207,130
2020	2,229,576	70,424	3,159,780	5,459,780
2021	2,485,992	119,008	3,075,630	5,680,630
2022-2026	15,367,555	2,842,445	14,025,022	32,235,022
2027-2031	23,291,104	4,278,896	10,667,434	38,237,434
2032-2036	19,690,000	-	4,547,925	24,237,925
2037-2041	7,440,000	-	2,587,650	10,027,650
2042-2046	8,730,000	-	752,350	9,482,350
2047-2050	36,858,397	397,456,603	-	434,315,000
Total	<u>\$ 125,499,376</u>	<u>\$ 404,815,624</u>	<u>\$ 48,559,842</u>	<u>\$ 578,874,842</u>

AZUSA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Certificates of Participation

On May 28, 2015, the District issued \$4,920,000 of certificates of participation. The certificates consist of serial certificates for \$2,020,000 with interest rates ranging between 2.0 to 3.75 percent with maturity dates through August 1, 2030. Additionally, term certificates of \$750,000 and \$2,150,000 with interest rates of 4.0 percent and 4.25 percent, respectively. The Term certificates mature on August 1, 2033 and August 1, 2040, respectively. The net proceeds were used to refund the District's outstanding 2012 certificates of participation. At June 30, 2016, the principal balance outstanding was \$4,920,000 and unamortized discount was \$95,130.

The annual requirements to amortize all outstanding certificates are as follows:

Year Ending June 30,	Principal	Interest	Total
2017	\$ -	\$ 182,375	\$ 182,375
2018	-	182,375	182,375
2019	-	182,375	182,375
2020	-	182,375	182,375
2021	-	182,375	182,375
2022-2026	935,000	858,781	1,793,781
2027-2031	1,085,000	706,488	1,791,488
2032-2036	1,300,000	479,512	1,779,512
2037-2041	1,600,000	175,525	1,775,525
Total	<u>\$ 4,920,000</u>	<u>\$ 3,132,181</u>	<u>\$ 8,052,181</u>

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2016, amounted to \$435,158.

Supplemental Early Retirement Plans

Public Agency Retirement System (PARS) Early Retirement Plan

During 2012-2013, the District adopted a supplemental retirement plan through the Public Agency Retirement System (PARS) whereby certain eligible certificated employees are provided an annuity to supplement the retirement benefits that they are entitled to through CalSTRS. The Azusa Educators Association (AEA) accepted the early retirement incentive through PARS whereby eligible retirees receive 85 percent of their final pay in five equal annual installments, beginning July 10, 2013. The District's remaining obligation under this plan as of June 30, 2016 is \$668,930.

AZUSA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

Voluntary Retirement Program (VRP)

During 2015-2016, the District offered a voluntary retirement program to qualified certificated and classified employees. Eligibility requirements are that employees must be at least age 55 with 10 or more years of continuous service in the District as of June 30, 2016. VRP benefits are based on 90 percent of the STRS/PERS creditable compensation for the fiscal year. All contributions to the VRP plan will be made by the District, no employee contributions are required to participate. The District will fund the benefits over a five year period. Currently, there are 31 employees participating in this plan and the District's obligation to those retirees as of June 30, 2016, is \$2,503,664.

As of June 30, 2016, the outstanding balance for the combined retirement programs was \$3,172,594. Future payments are as follows:

Year Ending June 30,	Payment
2017	\$ 835,198
2018	835,198
2019	500,733
2020	500,733
2021	500,732
Total	<u>\$ 3,172,594</u>

Other Postemployment Benefits (OPEB) Obligation

The District's annual required contribution for the year ended June 30, 2016, was \$740,603, and contributions made by the District during the year were \$353,972. Interest on the net OPEB obligation and adjustments to the annual required contribution were \$111,057 and \$(96,988), respectively, which resulted in an increase to the net OPEB obligation of \$400,700. As of June 30, 2016, the net OPEB obligation was \$2,621,854. See Note 11 for additional information regarding the OPEB obligation and the postemployment benefits plan.

AZUSA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

NOTE 10 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Building Fund	Non-Major Governmental Funds	Total
Nonspendable				
Revolving cash	\$ 25,000	\$ 1,556	\$ 20,000	\$ 46,556
Stores inventories	272,725	-	107,862	380,587
Total Nonspendable	297,725	1,556	127,862	427,143
Restricted				
Legally restricted programs	2,211,152	-	1,729,088	3,940,240
Capital projects	-	24,157,134	201,214	24,358,348
Debt service	-	-	5,534,374	5,534,374
Total Restricted	2,211,152	24,157,134	7,464,676	33,832,962
Assigned				
Adult education program	-	-	137,789	137,789
Deferred maintenance	2,134,705	-	-	2,134,705
Other program balances	1,218,257	-	11,430	1,229,687
Total Assigned	3,352,962	-	149,219	3,502,181
Unassigned				
Reserve for economic uncertainties	12,165,499	-	-	12,165,499
Remaining unassigned	3,431,516	-	-	3,431,516
Total Unassigned	15,597,015	-	-	15,597,015
Total	\$ 21,458,854	\$ 24,158,690	\$ 7,741,757	\$ 53,359,301

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

Plan Description

The Postemployment Benefits Plan (the Plan) is a single-employer defined benefit healthcare plan administered by the Azusa Unified School District. The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Membership of the Plan consists of 20 retirees and beneficiaries currently receiving benefits, and 516 active plan members.

AZUSA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Contribution Information

The contribution requirements of plan members and the District are established and may be amended by the District, the Teachers Association (CEA), and the local California Service Employees Association (CSEA). The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2015-2016, the District contributed \$353,972 to the plan, all of which was used for current premiums.

Annual OPEB Cost and Net OPEB Obligation

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

Annual required contribution	\$ 740,603
Interest on net OPEB obligation	111,057
Adjustment to annual required contribution	<u>(96,988)</u>
Annual OPEB cost (expense)	754,672
Contributions made	<u>(353,972)</u>
Increase in net OPEB obligation	400,700
Net OPEB obligation, beginning of year	<u>2,221,154</u>
Net OPEB obligation, end of year	<u><u>\$ 2,621,854</u></u>

Trend Information

Trend information for annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2016, 2015, and 2014 is as follows:

Year Ended June 30,	Annual OPEB Cost	Actual Contribution	Percentage Contributed	Net OPEB Obligation
2014	\$ 768,289	\$ 364,550	20%	\$ 1,809,488
2015	750,929	339,263	15%	2,221,154
2016	754,672	353,972	14%	2,621,854

AZUSA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

Funded Status and Funding Progress

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Unprojected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
July 1, 2014	\$ -	\$ 7,697,889	\$ 7,697,889	0%	\$ 60,427,597	13%

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

Actuarial Methods and Assumptions

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

In the July 1, 2014, actuarial valuation, the unprojected unit credit method was used. The actuarial assumptions included a five percent investment rate of return (net of administrative expenses), based on the plan being funded in an irrevocable employee benefit trust invested in a combined equity and fixed income portfolio. Healthcare cost trend rates ranged from an initial 7.5 percent to an ultimate rate of five percent. The cost trend rate used for the Dental and Vision programs was five percent. The UAAL is being amortized at a level dollar method. The remaining amortization period at June 30, 2016, was 24 years. The actuarial value of assets was not determined in this actuarial valuation.

AZUSA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

NOTE 12 - RISK MANAGEMENT

Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2016, the District contracted San Gabriel Valley School Districts' Self-Insurance Authority for Liability Protection (SGVSDSIALP) for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

Workers' Compensation

For fiscal year 2016, the District participated in the San Gabriel Valley School Districts' Self-Insurance Authority (SGVSDSIA), an insurance purchasing pool. The intent of the JPA is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the JPA. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all districts in the JPA. Each participant pays its workers' compensation premium based on its individual rate. A participant will then either receive money from or be required to contribute to the "equity-pooling fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the JPA. Participation in San Gabriel Valley School District's Self Insurance Authority is limited to districts that can meet the JPA's selection criteria.

Employee Medical Benefits

Employee health benefits are covered by commercial insurance policies purchased by the District. The District has contracted with the Aetna Health Care, Kaiser Permanente, SafeGuard and Delta Dental, and SafeGuard and VSP to provide employee health benefits. The District provides health insurance benefits to District employees electing to participate in the plan by paying a monthly premium based on the number of District employees participating in the plan.

Claims Liabilities

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

AZUSA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

Unpaid Claims Liabilities

The fund establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represent the changes in approximate aggregate liabilities for the District from July 1, 2014 to June 30, 2016 (in thousands):

	Dental Care
Liability Balance, July 1, 2014	\$ 82,000
Claims and changes in estimates	1,086,857
Claims payments	(1,078,857)
Liability Balance, June 30, 2015	90,000
Claims and changes in estimates	1,126,342
Claims payments	(1,041,342)
Liability Balance, June 30, 2016	\$ 175,000
Assets available to pay claims at June 30, 2016	\$ 593,613

NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS

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

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

Pension Plan	Collective Net Pension Liability	Collective Deferred Outflows of Resources	Collective Deferred Inflows of Resources	Collective Pension Expense
CalSTRS	\$ 65,435,675	\$ 11,592,345	\$ 11,583,235	\$ 5,458,455
CalPERS	17,147,484	5,566,317	4,654,502	1,554,439
Total	\$ 82,583,159	\$ 17,158,662	\$ 16,237,737	\$ 7,012,894

AZUSA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

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

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2014, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publically available reports that can be found on the CalSTRS website under Publications at:
<http://www.calstrs.com/member-publications>.

Benefits Provided

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

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

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

AZUSA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

The STRP provisions and benefits in effect at June 30, 2016, are summarized as follows:

	STRP Defined Benefit Program	
	On or before	On or after
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	9.20%	8.56%
Required employer contribution rate	10.73%	10.73%
Required State contribution rate	7.12589%	7.12589%

Contributions

Required member, District, and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven year period. The contribution rates for each plan for the year ended June 30, 2016, are presented above and the District's total contributions were \$5,066,334.

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

At June 30, 2016, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related state support and the total portion of the net pension liability that was associated with the District were as follows:

Total Net Pension Liability, Including State Share:

District's proportionate share of net pension liability	\$ 65,435,675
State's proportionate share of the net pension liability associated with the District	34,608,259
Total	<u>\$ 100,043,934</u>

The net pension liability was measured as of June 30, 2015. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. The District's proportionate share for the measurement period June 30, 2015 and June 30, 2014, respectively was 0.0972 percent and 0.0950 percent, resulting in a net increase in the proportionate share of 0.0022 percent.

AZUSA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

For the year ended June 30, 2016, the District recognized pension expense of \$5,458,455. In addition, the District recognized pension expense and revenue of \$2,680,798 for support provided by the State. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 5,066,334	\$ -
Net change in proportionate share of net pension liability	1,370,294	-
Difference between projected and actual earnings on pension plan investments	5,155,717	10,489,789
Differences between expected and actual experience in the measurement of the total pension liability	-	1,093,446
Total	<u>\$ 11,592,345</u>	<u>\$ 11,583,235</u>

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2017	\$ (2,207,667)
2018	(2,207,667)
2019	(2,207,667)
2020	1,288,930
Total	<u>\$ (5,334,071)</u>

AZUSA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2017	\$ 46,141
2018	46,141
2019	46,141
2020	46,141
2021	46,141
Thereafter	46,143
Total	<u>\$ 276,848</u>

Actuarial Methods and Assumptions

Total pension liability for STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2014, and rolling forward the total pension liability to June 30, 2015. The financial reporting actuarial valuation as of June 30, 2014, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2014
Measurement date	June 30, 2015
Experience study	July 1, 2006 through June 30, 2010
Actuarial cost method	Entry age normal
Discount rate	7.60%
Investment rate of return	7.60%
Consumer price inflation	3.00%
Wage growth	3.75%

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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

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

Discount Rate

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

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

Discount rate	Net Pension Liability
1% decrease (6.65%)	\$ 98,802,777
Current discount rate (7.65%)	65,435,675
1% increase (8.65%)	37,704,922

AZUSA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

California Public Employees Retirement System (CalPERS)

Plan Description

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

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2014 annual actuarial valuation report, Schools Pool Actuarial Valuation, 2014. This report and CalPERS audited financial information are publically available reports that can be found on the CalPERS website under Forms and Publications at: <https://www.calpers.ca.gov/page/forms-publications>.

Benefits Provided

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

The CalPERS provisions and benefits in effect at June 30, 2016, are summarized as follows:

	School Employer Pool (CalPERS)	
	On or before December 31, 2012	On or after January 1, 2013
Hire date		
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.000%	6.000%
Required employer contribution rate	11.847%	11.847%

AZUSA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2016, are presented above and the total District contributions were \$1,641,603.

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

As of June 30, 2016, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$17,147,484. The net pension liability was measured as of June 30, 2015. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2015 and June 30, 2014, respectively was 0.1163 percent and 0.1152 percent, resulting in a net increase in the proportionate share of 0.0011 percent.

For the year ended June 30, 2016, the District recognized pension expense of \$1,554,439. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 1,641,603	\$ -
Net change in proportionate share of net pension liability	128,418	197,477
Difference between projected and actual earnings on pension plan investments	2,816,292	3,403,436
Differences between expected and actual experience in the measurement of the total pension liability	980,004	-
Changes of assumptions	-	1,053,589
Total	<u>\$ 5,566,317</u>	<u>\$ 4,654,502</u>

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

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2017	\$ (430,406)
2018	(430,406)
2019	(430,406)
2020	704,074
Total	<u>\$ (587,144)</u>

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2017	\$ (85,027)
2018	(74,634)
2019	17,017
Total	<u>\$ (142,644)</u>

Actuarial Methods and Assumptions

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

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

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

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	51%	5.25%
Global fixed income	19%	0.99%
Private equity	10%	6.83%
Real estate	10%	4.50%
Inflation sensitive	6%	0.45%
Infrastructure and Forestland	2%	4.50%
Liquidity	2%	-0.55%

Discount Rate

The discount rate used to measure the total pension liability was 7.65 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Based on these assumptions, the School Employer Pool fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

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

Discount rate	Net Pension Liability
1% decrease (6.65%)	\$ 27,908,958
Current discount rate (7.65%)	17,147,484
1% increase (8.65%)	8,198,598

AZUSA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of \$3,062,099 (7.12589 of annual payroll). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

Grants

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2016.

Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2016.

AZUSA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

Construction Commitments

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

Capital Project	Remaining Construction Commitment	Expected Date of Completion
Azusa High School - HVAC Modernization Project	\$ 28,688	08/31/16
Center Middle School - HVAC Modernization Project	9,532	08/31/16
Ellington (K-8) - Inspection Services for Installation of Portable Classrooms	4,394	08/31/16
Gladstone High School - Inspection Services for HVAC Project	12,823	08/31/16
Slauson Middle School - Inspection Services for HVAC Project	2,085	08/31/16
Center Middle School - Classroom HVAC Modernization	111,197	10/04/16
Gladstone High School - Gym HVAC Installation	66,449	10/18/16
Azusa High School - Architect Engineering Fees for DSA Review and Approval	212,800	12/31/16
Center Middle School - Architectural/Engineering Fee Modernization Project	811,100	12/31/16
Consulting Services- Various Sites	220,661	12/31/16
Dalton Elementary - Re-Roofing Architect/Engineering Fees	47,650	12/31/16
Dalton Elementary - Architectural Services for Seismic Review	13,250	12/31/16
Ellington (K-8) - Portable Building Project	144,375	12/31/16
Fencing Project - Various Sites	2,539,648	12/31/16
Fire Alarm System Project - Various Sites	38,073	12/31/16
HVAC Upgrade Project - Various Sites	386,387	12/31/16
Lee Elementary School- Classroom HVAC and Roofing Modernization	165,183	12/31/16
Marquee Signs - Various Sites	36,400	12/31/16
Non-DSA Fencing Modernization Project - Various sites	65,461	12/31/16
Paramount Elementary- Roofing Project	29,576	12/31/16
Provide State Prequalification Services for Annual Renewal - Various Sites	12,500	12/31/16
Underground Utilities Modernization - Various Sites	667,219	12/31/16
	<u>\$ 5,625,451</u>	

NOTE 15 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS, JOINT POWERS AUTHORITIES AND OTHER RELATED PARTY TRANSACTIONS

The District is a member of the San Gabriel Valley School Districts' Self-Insurance Authority (SGVSDSIA), San Gabriel Valley School Districts' Self-Insurance Authority for Liability Protection (SGVSDSIALP), and the California School Facilities Financing Authority (CSFFA) joint powers authorities. The District pays an annual premium to the applicable entity for its workers' compensation and property liability coverage. The relationships between the District, the pools, and the JPA's are such that they are not component units of the District for financial reporting purposes. All debt issued by CSFFA on behalf of the District is included in the District's financial statements.

AZUSA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

The SGVSDSIA and SGVSDSIALP JPAs arrange for and provide workers' compensation and property and liability insurance for their member school districts. Each JPA is governed by a board consisting of a representative from each member district. Each governing board controls the operations of its JPA independent of any influence by the member districts beyond their representation on the governing boards. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionately to its participation in the JPA.

The Authority was formed for the public purpose of assisting in financing public capital improvements for the District.

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

During the year ended June 30, 2016, the District made payments of \$2,101,588 and \$358,685 to SGVSDSIA, and SGVSDSIALP, respectively.

NOTE 16 - RESTATEMENT OF PRIOR YEAR NET POSITION

The District's prior year fund balances for the General Fund and for the Non-Major Governmental Funds have been restated as of June 30, 2016, to conform to GASB Statement No. 54's definition of governmental funds. Accordingly, the beginning fund balance for Fund 11, Adult Education Fund, as presented in the General Fund due to consolidation, is reported as a restatement to the beginning fund balance of the Non-Major Governmental Funds. The restatement does not change the total fund balance or net position amounts reported in the District's audited financial statements.

General Fund

Fund Balance - Beginning	\$ 14,866,869
Reclassification of the Adult Education Fund from the General Governmental Fund to Non-Major Governmental Funds in accordance with GASB Statement No. 54	(121,398)
Fund Balance - Beginning, as Restated	<u>\$ 14,745,471</u>

Non-Major Governmental Funds

Fund Balance - Beginning	\$ 4,525,365
Reclassification of the Adult Education Fund from the General Governmental Fund to Non-Major Governmental Funds in accordance with GASB Statement No. 54	121,398
Fund Balance - Beginning, as Restated	<u>\$ 4,646,763</u>

AZUSA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE 17- SUBSEQUENT EVENTS

On August 3, 2016, the District issued the General Obligation Refunding Bonds, Series 2016 in the amount of \$21,525,000. The bonds were issued for the purpose of refunding on an advance basis, a portion of the District's General Obligation Revenue Bonds, Election of 2002 Series 2010, and a corresponding portion of the California School Financing Authority General Obligation Revenue Bonds (Azusa Unified School District), Series A. The bonds have a final maturity date to occur on August 1, 2032 with interest rates ranging between 2.00 to 5.00 percent.

REQUIRED SUPPLEMENTARY INFORMATION

AZUSA UNIFIED SCHOOL DISTRICT

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

	Budgeted Amounts		Actual	Variances -
	Original	Final	(GAAP Basis)	Positive (Negative) Final to Actual
REVENUES				
Local Control Funding Formula	\$ 85,213,050	\$ 84,896,715	\$ 85,620,164	\$ 723,449
Federal sources	6,886,425	8,147,785	6,971,157	(1,176,628)
Other State sources	9,993,622	10,427,255	13,449,982	3,022,727
Other local sources	7,498,282	7,709,967	7,303,580	(406,387)
Total Revenues ¹	109,591,379	111,181,722	113,344,883	2,163,161
EXPENDITURES				
Current				
Certificated salaries	48,107,499	48,730,716	47,941,330	789,386
Classified salaries	15,840,452	16,948,468	16,931,280	17,188
Employee benefits	15,640,283	16,140,593	18,517,177	(2,376,584)
Books and supplies	6,253,003	9,113,307	6,904,836	2,208,471
Services and operating expenditures	16,191,261	13,706,845	12,542,661	1,164,184
Other outgo	1,973,010	2,018,397	3,037,366	(1,018,969)
Capital outlay	242,695	1,277,440	498,762	778,678
Total Expenditures ¹	104,248,203	107,935,766	106,373,412	1,562,354
Excess of Revenues Over Expenditures	5,343,176	3,245,956	6,971,471	3,725,515
Other Financing Sources (Uses)				
Transfers in	3,000	3,000	4,675	1,675
Transfers out	(1,767,160)	(480,079)	(262,763)	217,316
Net Financing Sources (Uses)	(1,764,160)	(477,079)	(258,088)	218,991
NET CHANGE IN FUND BALANCES	3,579,016	2,768,877	6,713,383	3,944,506
Fund Balance - Beginning	14,866,869	14,866,869	14,866,869	-
Restatement	-	-	(121,398)	(121,398)
Fund Balance - Ending	\$ 18,445,885	\$ 17,635,746	\$ 21,458,854	\$ 3,823,108

¹ On behalf payments of \$3,062,099 are included in the actual revenues and expenditures, but have not been included in the original and final budgeted amounts. In addition, due to the consolidation of Fund 14, Deferred Maintenance Fund and Fund 17, Special Reserve Fund for Other Than Capital Outlay for reporting purposes into the General Fund, additional revenues and expenditures pertaining to these funds are included in the actual revenues and expenditures, however are not included in the original and final budgeted amounts.

See accompanying note to required supplementary information.

AZUSA UNIFIED SCHOOL DISTRICT

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Unprojected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
November 11, 2010	\$ -	\$ 4,507,214	\$ 4,507,214	0%	\$ 60,581,264	7%
April 1, 2013	-	4,850,796	4,850,796	0%	59,179,015	8%
July 1, 2014	-	7,697,889	7,697,889	0%	60,427,597	13%

See accompanying note to required supplementary information.

AZUSA UNIFIED SCHOOL DISTRICT

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

	2016	2015
CalSTRS		
District's proportion of the net pension liability	0.0972%	0.0950%
District's proportionate share of the net pension liability	\$ 65,435,675	\$ 55,515,150
State's proportionate share of the net pension liability associated with the District	34,608,259	33,522,444
Total	100,043,934	\$ 89,037,594
District's covered - employee payroll	\$ 40,030,755	\$ 43,087,648
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	163%	129%
Plan fiduciary net position as a percentage of the total pension liability	74%	77%
CalPERS		
District's proportion of the net pension liability	0.1163%	0.1152%
District's proportionate share of the net pension liability	17,147,484	\$ 13,078,005
District's covered - employee payroll	\$ 11,917,553	\$ 12,259,185
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	144%	107%
Plan fiduciary net position as a percentage of the total pension liability	79%	83%

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

See accompanying note to required supplementary information.

AZUSA UNIFIED SCHOOL DISTRICT

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

	2016	2015
CalSTRS		
Contractually required contribution	\$ 5,066,334	\$ 3,554,731
Contributions in relation to the contractually required contribution	(5,066,334)	(3,554,731)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered - employee payroll	\$ 47,216,533	\$ 40,030,755
Contributions as a percentage of covered - employee payroll	<u>10.73%</u>	<u>8.88%</u>
CalPERS		
Contractually required contribution	\$ 1,641,603	\$ 1,402,696
Contributions in relation to the contractually required contribution	(1,641,603)	(1,402,696)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered - employee payroll	\$ 13,856,698	\$ 11,917,553
Contributions as a percentage of covered - employee payroll	<u>11.85%</u>	<u>11.77%</u>

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

See accompanying note to required supplementary information.

AZUSA UNIFIED SCHOOL DISTRICT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2016

NOTE 1 - PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

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

Schedule of Other Postemployment Benefits (OPEB) Funding Progress

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

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

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

Schedule of District Contributions

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

NOTE 2 - CHANGES IN BENEFIT TERMS AND ASSUMPTIONS

Changes in Benefit Terms

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

Changes in Assumptions

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

SUPPLEMENTARY INFORMATION

AZUSA UNIFIED SCHOOL DISTRICT

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

		Pass-Through		
Federal Grantor/Pass-Through	Federal	Entity		
Grantor/Program or Cluster Title	CFDA	Identifying	Federal	
	Number	Number	Expenditures	
U.S. DEPARTMENT OF EDUCATION				
Passed through California Department of Education (CDE):				
Adult Education and Family Literacy Act				
Adult Education-Basic Grants to States Cluster				
Adult Basic Education: Adult Basic Education & ESL	84.002A	14508	\$	48,509
Adult Education: Adult Secondary Education	84.002	13978		24,607
Adult Education: English Literacy & Civics Education	84.002A	14109		16,540
Subtotal Adult Education - Basic Grants to States Cluster				89,656
No Child Left Behind Act (NCLB)				
Title I, Part A - Basic Grants Low Income and Neglected	84.010	14329		2,966,369
Title II, Part A - Improving Teacher Quality (Grant)	84.367	14341		261,130
Title I, Part C - Migrant Education Cluster:				
Title I, Migrant Ed (Regular)	84.011	14326		138,265
Title I, Migrant Education Summer Program	84.011	10005		41,684
Subtotal Title I, Part C - Migrant Education Cluster				179,949
English Language Acquisition Grants				
Title III - Limited English Proficiency	84.365	14346		338,633
Title III - Immigrant Education Program	84.365	15299		5,716
Subtotal - English Language Acquisition Grants				344,349
Title IV, Part B - 21st Century Community Learning Center	84.287	14349		316,000
Title II, Part B, CA Mathematics and Science Partnerships	84.366	14512		599,407
Individuals with Disabilities Education Act				
Special Education (IDEA) Cluster				
Local Assistance Entitlement	84.027	13379		1,499,116
Preschool Grants, Part B, Sec 619	84.173	13430		37,246
Preschool Local Entitlement, Part B, Sec 611	84.027A	13682		51,231
Mental Health Allocation, Part B, Sec 611	84.027A	15197		60,620
Subtotal Individuals with Disabilities Education Act (IDEA) Cluster				1,648,213
IDEA Early Intervention Grants, Part C	84.181	23761		113,731
Carl D. Perkins Vocational and Technical Education Improvement Act of 2006				
Career and Technical Education - Basic Grants to States Cluster				
Vocational and Applied Technology Secondary II C, Sec 131	84.048	14894		106,776
Total U.S. Department of Education				6,625,580

See accompanying note to supplementary information.

AZUSA UNIFIED SCHOOL DISTRICT

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

	Pass-Through		
Federal Grantor/Pass-Through	Federal	Entity	
Grantor/Program or Cluster Title	CFDA	Identifying	Federal
	Number	Number	Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
Passed through CDE:			
Child Nutrition Program Cluster:			
Especially Needy Breakfast	10.553	13526	\$ 703,945
National School Lunch	10.555	13396	3,197,797
Commodities	10.555	13396	262,443
Meals Supplements	10.556	13392	6,398
Summer Food Service Program Operation	10.559	13004	26,765
Summer Food Service Sponsor Admin	10.559	13006	2,859
Subtotal Child Nutrition Program Cluster			4,200,207
Child and Adult Care Food Program Cluster:			
Child and Adult Care Food Program	10.558	13393	734,040
CCFP Cash in Lieu of Commodities	10.558	13534	56,787
Subtotal Child and Adult Care Food Program Cluster			790,827
Fresh Fruit and Vegetables Program	10.582	14968	20,504
Forest Reserve	10.665	10044	13,812
Total U.S. Department of Agriculture			5,025,350
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Passed through California Department of Education (CDE):			
Medicaid Program Cluster			
Medical Administrative Activities (MAA)	93.778	10060	229,712
Medi-Cal Billing Option	93.778	10013	111,828
Subtotal Medicaid Cluster Program			341,540
Total U.S. Department of Health and Human Services			341,540
Total Expenditures of Federal Awards			\$11,992,470

See accompanying note to supplementary information.

AZUSA UNIFIED SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2016

ORGANIZATION

The Azusa Unified School District was established in 1961 and consists of an area comprising approximately 150 square miles. The District operates eleven elementary schools, three middle schools, two high schools, and two alternative education schools. There were no boundary changes during the year.

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Yolanda Rodriguez-Peña	President	2019
Helen Jaramillo	Vice President	2017
Xilonin Cruz-Gonzalez	Clerk	2017
Paul Naccachian	Member	2017
Jeri Bibles-Vogel	Member	2019

ADMINISTRATION

Dr. Linda Kaminski	Superintendent
Corey James	Assistant Superintendent, Human Resources
Deborah Deal	Assistant Superintendent, Business Services
Arturo Ortega	Assistant Superintendent, Educational Services and Student Achievement

See accompanying note to supplementary information.

AZUSA UNIFIED SCHOOL DISTRICT

SCHEDULE OF AVERAGE DAILY ATTENDANCE FOR THE YEAR ENDED JUNE 30, 2016

	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Transitional kindergarten through third	2,651.13	2,648.65
Fourth through sixth	2,003.78	1,997.73
Seventh and eighth	1,303.27	1,296.65
Ninth through twelfth	2,589.95	2,566.18
Total Regular ADA	8,548.13	8,509.21
Extended Year Special Education		
Transitional kindergarten through third	6.83	6.83
Fourth through sixth	5.35	5.35
Seventh and eighth	2.09	2.09
Ninth through twelfth	10.51	10.51
Total Extended Year Special Education	24.78	24.78
Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	0.67	0.51
Fourth through sixth	3.66	3.51
Seventh and eighth	5.92	5.90
Ninth through twelfth	16.07	16.25
Total Special Education, Nonpublic, Nonsectarian Schools	26.32	26.17
Extended Year Special Education, Nonpublic, Nonsectarian Schools		
Fourth through sixth	0.21	0.21
Seventh and eighth	0.14	0.14
Ninth through twelfth	0.61	0.61
Total Special Education, Nonpublic, Nonsectarian Schools	0.96	0.96
Community Day School		
Ninth through twelfth	0.03	0.02
Total ADA	8,600.22	8,561.14

See accompanying note to supplementary information.

AZUSA UNIFIED SCHOOL DISTRICT

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

Grade Level	1986-87	2015-16	Number of Days		Status
	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Kindergarten	36,000	42,160	180	-	Complied
Grades 1 - 3	50,400				
Grade 1		50,865	180	-	Complied
Grade 2		50,865	180	-	Complied
Grade 3		50,865	180	-	Complied
Grades 4 - 6	54,000				
Grade 4		54,477	180	-	Complied
Grade 5		54,477	180	-	Complied
Grade 6		54,477	180	-	Complied
Grades 7 - 8	54,000				
Grade 7		54,477	180	-	Complied
Grade 8		54,477	180	-	Complied
Grades 9 - 12	64,800				
Grade 9		65,350	180	-	Complied
Grade 10		65,350	180	-	Complied
Grade 11		65,350	180	-	Complied
Grade 12		65,350	180	-	Complied

See accompanying note to supplementary information.

AZUSA UNIFIED SCHOOL DISTRICT

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

Summarized below are the fund balance reconciliations between the Unaudited Actual Financial Report and the audited financial statements.

	Cafeteria Fund	Building Fund	Self Insurance Fund
FUND BALANCE			
Balance, June 30, 2016, Unaudited Actuals	\$ 2,224,977	\$ 23,253,720	\$ 586,695
Increase/(Decrease) in:			
Cash with fiscal agent	-	455,100	-
Accounts receivable	(491,868)	-	-
(Increase)/Decrease in:			
Accounts payable	(100,302)	449,870	-
Claims liability	-	-	(175,000)
Balance, June 30, 2016, Audited Financial Statements	<u>\$ 1,632,807</u>	<u>\$ 24,158,690</u>	<u>\$ 411,695</u>

See accompanying note to supplementary information.

AZUSA UNIFIED SCHOOL DISTRICT

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

	(Budget) 2017 ¹	2016	2015	2014
GENERAL FUND ³				
Revenues	\$106,605,442	\$113,305,083	\$ 97,494,560	\$ 93,139,792
Other sources	3,000	4,675	-	-
Total Revenues and Other Sources	106,608,442	113,309,758	97,494,560	93,139,792
Expenditures	107,061,544	105,911,924	97,817,835	91,729,310
Other uses and transfers out	480,079	712,842	1,767,160	1,722,128
Total Expenditures and Other Uses	107,541,623	106,624,766	99,584,995	93,451,438
INCREASE (DECREASE) IN FUND BALANCE	\$ (933,181)	\$ 6,684,992	\$ (2,090,435)	\$ (311,646)
ENDING FUND BALANCE	\$ 14,959,452	\$ 15,892,633	\$ 9,207,641	\$ 11,298,076
AVAILABLE RESERVES ²	\$ 11,530,032	\$ 15,597,015	\$ 8,228,659	\$ 8,797,847
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO	10.72%	14.63%	8.26%	9.41%
LONG-TERM OBLIGATIONS	N/A	\$137,408,493	\$103,923,430	\$ 110,314,702
K-12 AVERAGE DAILY ATTENDANCE AT P-2	8,250	8,600	8,955	9,215

The General Fund balance has increased by \$4,594,557 over the past two years. The fiscal year 2016-2017 budget projects a decrease of \$933,181 (5.9 percent). For a district this size, the State recommends available reserves of at least three percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred an operating deficits in two of the past three years and anticipates incurring an operating deficit during the 2016-2017 fiscal year. Total long-term obligations have increased by \$27,093,791 over the past two years.

Average daily attendance has decreased by 615 over the past two years. Additional decline of 350 ADA is anticipated during fiscal year 2016-2017.

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

² Available reserves consist of all unassigned fund balances including all amounts reserved for economic uncertainties contained with the General Fund and the Special Reserve Fund for Other Than Capital Outlay Projects.

³ General Fund amounts do not include activity related to the consolidation of the Deferred Maintenance Fund, and the Special Reserve Fund for Other Than Capital Outlay Projects as required by GASB Statement No. 54.

See accompanying note to supplementary information.

AZUSA UNIFIED SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS COMBINING BALANCE SHEET JUNE 30, 2016

	Adult Education Fund	Cafeteria Fund	Capital Facilities Fund
ASSETS			
Deposits and investments	\$ 422,998	\$ 1,496,705	\$ 309,248
Receivables	23,459	649,383	686
Due from other funds	-	623	-
Stores inventories	-	107,861	-
Total Assets	\$ 446,457	\$ 2,254,572	\$ 309,934
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 84,525	\$ 582,130	\$ 108,720
Unearned revenue	-	39,635	-
Total Liabilities	84,525	621,765	108,720
Fund Balances:			
Nonspendable	-	127,862	-
Restricted	224,143	1,504,945	201,214
Assigned	137,789	-	-
Total Fund Balances	361,932	1,632,807	201,214
Total Liabilities and Fund Balances	\$ 446,457	\$ 2,254,572	\$ 309,934

See accompanying note to supplementary information.

State School Building Fund	Bond Interest and Redemption Fund	Tax Override Fund	Total Non-Major Governmental Funds
\$ 167	\$ 5,534,374	\$ 11,238	\$ 7,774,730
-	-	25	673,553
-	-	-	623
-	-	-	107,861
<u>\$ 167</u>	<u>\$ 5,534,374</u>	<u>\$ 11,263</u>	<u>\$ 8,556,767</u>
-	\$ -	-	\$ 775,375
-	-	-	39,635
-	-	-	815,010
-	-	-	127,862
-	5,534,374	-	7,464,676
167	-	11,263	149,219
167	5,534,374	11,263	7,741,757
<u>\$ 167</u>	<u>\$ 5,534,374</u>	<u>\$ 11,263</u>	<u>\$ 8,556,767</u>

AZUSA UNIFIED SCHOOL DISTRICT

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

	Adult Education Fund	Cafeteria Fund	Capital Facilities Fund
REVENUES			
Federal sources	\$ 89,656	\$ 5,011,538	\$ -
Other State sources	1,340,995	310,863	-
Other local sources	81,919	361,186	193,697
Total Revenues	1,512,570	5,683,587	193,697
EXPENDITURES			
Current			
Instruction	642,247	-	-
Instruction-related activities:			
Supervision of instruction	13,082	-	-
School site administration	453,251	-	-
Pupil services			
Food services	-	6,467,450	-
All other pupil services	108,488	-	-
Administration			
All other administration	52,523	288,443	-
Plant services	2,445	(46,978)	-
Facility acquisition and construction	-	-	356,711
Debt service			
Principal	-	-	-
Interest and other	-	-	-
Total Expenditures	1,272,036	6,708,915	356,711
Excess (Deficiency) of Revenues Over Expenditures	240,534	(1,025,328)	(163,014)
Other Financing Sources (Uses)			
Transfers in	-	232,763	-
Transfers out	-	-	(4,675)
Net Financing Sources (Uses)	-	232,763	(4,675)
NET CHANGE IN FUND BALANCES	240,534	(792,565)	(167,689)
Fund Balance - Beginning	-	2,425,372	368,903
Restatement	121,398	-	-
Fund Balance - Ending	\$ 361,932	\$ 1,632,807	\$ 201,214

See accompanying note to supplementary information.

State School Building Fund	Bond Interest and Redemption Fund	Tax Override Fund	Total Non-Major Governmental Funds
-	\$ -	\$ -	\$ 5,101,194
-	58,491	-	1,710,349
7	7,006,439	78	7,643,326
7	7,064,930	78	14,454,869
-	-	-	642,247
-	-	-	13,082
-	-	-	453,251
-	-	-	6,467,450
-	-	-	108,488
-	-	-	340,966
-	-	-	(44,533)
-	-	-	356,711
-	790,000	-	790,000
-	2,460,301	-	2,460,301
-	3,250,301	-	11,587,963
7	3,814,629	78	2,866,906
-	-	-	232,763
-	-	-	(4,675)
-	-	-	228,088
7	3,814,629	78	3,094,994
160	1,719,745	11,185	4,525,365
-	-	-	121,398
\$ 167	\$ 5,534,374	\$ 11,263	\$ 7,741,757

AZUSA UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2016

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. The District has not elected to use the ten percent de minimis cost rate as covered in Section 200.414 Indirect (F&A) costs of the Uniform Guidance.

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances, and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts consist of Medi-Cal Billing Option funds that been recorded in the current period as revenues that have not been expended as of June 30, 2016. These unspent balances are reported as legally restricted ending balances within the General Fund.

Description	CFDA Number	Amount
Total Federal Revenues From the Statement of Revenues, Expenditures and Changes in Fund Balances:		\$ 12,072,351
Medi-Cal Billing Option	93.778	(79,881)
Total Schedule of Expenditures of Federal Awards		<u>\$ 11,992,470</u>

Local Education Agency Organization Structure

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

Schedule of Average Daily Attendance (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.

AZUSA UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2016

Schedule of Instructional Time

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. The District neither met nor exceeded its target funding. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of *Education Code* Sections 46200 through 46206.

Districts must maintain their instructional minutes at 1986-87 requirements, as required by *Education Code* Section 46201.

Reconciliation of Annual Financial and Budget Report With Audited Financial Statements

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

Schedule of Financial Trends and Analysis

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

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

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

INDEPENDENT AUDITOR'S REPORTS



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

Governing Board
Azusa Unified School District
Azusa, 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 Azusa Unified School District (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Azusa Unified School District's basic financial statements, and have issued our report thereon dated December 5, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Azusa 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 Azusa Unified School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Azusa 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. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs that we consider to be significant deficiencies as items 2016-001, 2016-002, and 2016-003.

Compliance and Other Matters

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

We noted certain matters that we reported to management of Azusa Unified School District in a separate letter dated December 5, 2016.

Azusa Unified School District's Response to Findings

Azusa Unified School District's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. Azusa Unified School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Varrinck, Irwin, Day & Co., LLP

Rancho Cucamonga, California
December 5, 2016



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

Governing Board
Azusa Unified School District
Azusa, California

Report on Compliance for Each Major Federal Program

We have audited Azusa 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 Azusa Unified School District's major Federal programs for the year ended June 30, 2016. Azusa Unified School District's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Azusa 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 Azusa 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 Azusa Unified School District's compliance.

Opinion on Each Major Federal Program

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

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2016-004, 2016-005, and 2016-006. Our opinion on each major federal program is not modified with respect to these matters.

Azusa Unified School District's response to the noncompliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. Azusa Unified School District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of Azusa 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 Azusa 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 Azusa Unified School District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2016-004, 2016-005, 2016-006 that we consider to be significant deficiencies.

Azusa Unified School District's response to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. Azusa Unified School District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

Vavrinik, Irine, Day & Co., LLP

Rancho Cucamonga, California
December 5, 2016



INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
Azusa Unified School District
Azusa, California

Report on State Compliance

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

Management's Responsibility

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

Auditor's Responsibility

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

Basis for Qualified Opinion on School Accountability Report Card

As described in the accompanying Schedule of Findings and Questioned Costs, Azusa Unified School District did not comply with requirements regarding the *School Accountability Report Card* as items 2016-007 and 2016-008. Compliance with such requirements is necessary, in our opinion, for Azusa Unified School District to comply with the requirements applicable to that program.

Qualified Opinion on School Accountability Report Card

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Azusa Unified School District complied, in all material respects, with the types of compliance requirements referred to above for the year ended June 30, 2016.

Unmodified Opinion on Each of the Other Programs

In our opinion, Azusa Unified School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2016, except as described in the Schedule of State Awards Findings and Questioned Costs section of the accompanying Schedule of Findings and Questioned Costs.

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

	Procedures Performed
LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	No, see below
Continuation Education	Yes, see below
Instructional Time	Yes
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	No, see below
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	No, see below
Middle or Early College High Schools	No, see below
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After School Education and Safety Program:	
General Requirements	Yes
After School	Yes
Before School	No, see below
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Independent Study - Course Based	No, see below
Immunizations	Yes, see below

	Procedures Performed
CHARTER SCHOOLS	
Attendance	No, see below
Mode of Instruction	No, see below
Non Classroom-Based Instruction/Independent Study for Charter Schools	No, see below
Determination of Funding for Non Classroom-Based Instruction	No, see below
Annual Instruction Minutes Classroom-Based	No, see below
Charter School Facility Grant Program	No, see below

We did not perform testing over Independent Study because the ADA was below the materiality threshold required for testing.

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

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

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

The District does not have any Middle or Early College High Schools; therefore, we did not perform any procedures related to Middle or Early College High Schools.

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

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

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

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

Vavrinik, Irine, Day & Co., LLP
 Rancho Cucamonga, California
 December 5, 2016

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

AZUSA UNIFIED SCHOOL DISTRICT

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

FINANCIAL STATEMENTS

Type of auditor's report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>Yes</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major Federal programs:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>Yes</u>

Type of auditor's report issued on compliance for major Federal programs:	<u>Unmodified</u>
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Any audit findings disclosed that are required to be reported in accordance with Section 200.516(a) of the Uniform Guidance	<u>Yes</u>
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Identification of major Federal programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>84.010</u>	<u>Title I, Part A - Basic Grants Low Income and Neglected</u>
<u>10.553, 10.555, 10.556, 10.559</u>	<u>Child Nutrition Program Cluster</u>
<u>10.558</u>	<u>Child and Adult Care Food Program Cluster</u>

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

STATE AWARDS

Type of auditor's report issued on compliance for programs:	<u>Unmodified</u>
Unmodified for all programs except for the following program which was qualified:	

<u>Name of Program</u>
<u>School Accountability Report Card</u>

AZUSA UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2016

The following findings represent significant deficiencies, material weaknesses, and/or instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*. The findings have been coded as follows:

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
30000	Internal Control

Capital Assets

2016-001 Code 30000

Criteria or Specific Requirements

Financial Statements prepared in accordance with GASB Statement 34, must include activities related to the District's capital assets. Reporting of capital assets on financial statements require the District to track and monitor capital asset activities annually, including acquisitions, dispositions, and construction activities that are generally considered as "construction in progress."

Condition

Although the current year's capital asset additions have been captured for financial reporting purposes, the District does not have an adequate method of tracking and monitoring its capital asset activities. The following conditions were noted:

- There is currently no procedure in place to properly identify equipment acquisitions above the District's capitalization threshold of \$5,000.
- There is currently no procedure to track the District's on-going construction activities for the purpose of identifying cumulative costs under the "construction-in-progress" capital asset category.
- There appears to be no personnel assigned to the tracking and inventorying of the District's capital assets.

Questioned costs

There were no questioned costs associated with the condition identified.

Context

The condition was identified through inquiry with District personnel and also through review of available District records related to the capital asset activities.

Effect

Due to the condition identified, the District's capital assets reported on the government-wide statements may be subject to misstatements.

AZUSA UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2016

Cause

The cause of the condition identified appears to have been triggered by the recent changes in the District's Business Department personnel.

Recommendation

The District should consider the following actions:

- 1) Utilize a 3rd party vendor capital asset system and have District personnel input the capital assets listing into the Fixed Assets Module to ensure completeness and accuracy of the District's capital assets.
- 2) Review historical capital outlay records related to the District's modernization and new construction projects and assess the balance carried as "construction in progress." The District should dissect the cumulative "construction in progress" balance into each applicable on-going project and reduce the balance for completed projects, as necessary.
- 3) Assign/delegate District personnel with the knowledge and capability of recording, tracking, and monitoring the District's capital asset activities. Provide necessary training to designated District employee(s) to properly maintain the Capital Assets.

Corrective Action Plan

The District has purchased a third party capital asset system that includes a fixed asset module. In addition, the district has hired a bond-clerk who will maintain construction in progress transactions and balances on an on-going basis.

Revenue Collections – General Local, Adult Education, and Cafeteria

2016-002 Code 30000

Criteria or Specific Requirements

Internal control is defined as a plan of organization under which employees' duties are so arranged and records and procedures so designated, as to provide a system of self-checking, thereby enhancing accounting control over assets, liabilities, revenues, and expenditures. Under such a system, the employees' work is subdivided so that no single employee performs a complete cycle of operations. Such procedures call for proper authorization by designated officials. To supplement an effective internal control, all computer systems that impact and interfaces with accounting records must also be established to provide effective internal controls

AZUSA UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2016

Condition

The following conditions were identified:

- 1) Cash collected by school sites is not accounted for properly. Cash collections are not supported by sub-receipts and or logs that agree to the total amount of cash noted on the count sheet. Two deposits tested did not have sufficient support or a paper trail; therefore the auditor was unable to confirm if these deposits were intact and deposited in a timely manner.
- 2) The accounting technician that generates the checks from the General Clearing Account is also the individual responsible for reconciling the bank statement.
- 3) Per review of the supporting documents pertaining to the adult education local revenues, it appears that two deposits tested were not deposited in a timely manner. The delay in deposit of the cash receipts selected for testing ranged from 12 to 14 days. The delay in cash deposits can increase the probability of theft, loss, or misappropriation.
- 4) For District Office and Nutrition Services cash collections, the person responsible for cash collections performs the deposit consolidation count alone and without any video monitoring devices. Not having a second person present or a video monitoring system creates an opportunity for cash to be misappropriated.
- 5) For Nutrition Services, there was no documentation of the reconciliation being performed between the NutriKids system revenue reports and the bank deposits. In addition, an indication for review of any unusual cash over/short is not performed. Unusual and/or consistent overages and shortages in the site's cash collections could be an indication of misappropriation of monies and/or incorrect use of District point of sale system. At year-end, we were unable to reconcile for the 2015-2016 fiscal year, the local revenues per the Nutrition Services NutriKids sales reports to District's general ledger. The audit trail provided was not sufficient to substantiate the District's reported revenue and timely deposits.
- 6) The bank reconciliations for the Nutrition Clearing Account had not been completed and/or reviewed for the months of September 2015 through May 2016. Regular bank reconciliations are an important internal control to safeguard against misuse of funds and/or accounting errors. In addition, the bank reconciliations for the Nutrition Revolving Account have not been completed and/or reviewed for the 2015-2016 fiscal year. Nutrition Services is currently unaware of any outstanding checks and is not able to reconcile the bank statement to the general ledger imprest amount.

Questioned Costs

There were no questioned costs associated with the condition identified.

Context

The condition was identified as a result of the full evaluation of the District's internal controls over cash receipting procedures. The evaluation encompassed direct observation of electronic records kept, counting room located in the Nutrition Services Department, and District provided deposit records and bank statements maintained for the 2015-2016 fiscal year.

AZUSA UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2016

Effect

The conditions identified may result in misappropriation of local revenues being perpetrated at the District Office (including Adult Education and Nutrition Services).

Cause

The primary cause was due to the lack of good business practices such as periodic evaluation and monitoring of proper internal controls and segregation of duties. The cause was also enhanced by the lack of sales reconciliations between the general ledger system and the Nutrition Services Department. Additionally, ineffective control activities (surveillance camera placed in cash counting room) facilitated the condition to materialize.

Recommendation

The District should consider the following actions:

- 1) Prenumbered triplicate receipts and or logs should be utilized when collecting money for transactions that occur at a school site. If utilizing a log, the students, parents, and or employee name and amount being turned in should be documented. If using a receipt book, the receipts should be issued in sequential order to all individuals turning in monies. Personnel who collect monies should be equipped with a triplicate receipts book or log sheet. The white copy of the receipt should be issued to the person turning in the monies, the yellow receipt or log sheet should be utilized for deposit back-up, and the pink copy should be retained in the receipt book for audit purposes. When personnel are turning in monies for deposit, a Cash Collection Form should be turned in with the yellow copy of the receipts and monies to clearly identify the total amount.
- 2) In order to have proper segregation of duties, it is ideal that the individual that has custody of the check stock is not the individual that is responsible for preparing the bank reconciliations. It is vital to the review process that the preparer is separate from the actual person depositing and generating checks from the clearing account. The District should revisit current procedures and redistribute work in order to separate the task of bank reconciliations, check preparation and deposit of checks to two separate individuals.
- 3) At a minimum, deposits should be made weekly to minimize the amount of cash held at any site. During weeks of high cash activity there may be a need to make more than one deposit. The District should establish guidelines for this procedure including the maximum cash on hand that should be maintained at the site.
- 4) It is recommended that the departments revise their deposit consolidation count procedures to have two people perform the count together and both sign-off the cash count sheets (for both the District count of all cash received from sites and the initial daily closeouts that are performed at the school sites for Nutrition Services). It is also highly recommended that a video monitoring system be utilized that is monitored frequently to deter misappropriation of cash.

AZUSA UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2016

- 5) The Nutrition Services Department should begin reconciling the NutriKids sales reporting system to the general ledger system. The cash count report from the NutriKids system is generated as a result of cash receipts being processed by the Nutrition Services Department. The report identifies how much cash was counted by the Nutrition Services Department. In order to verify the completeness of deposits being made, the cash count report should be used to reconcile all cash deposits posted on monthly bank statements. Ideally, reconciliations should be performed by an independent party that is not involved with the counting process.
- 6) As a good business practice, the District should always perform timely bank reconciliations to ensure that all activities have been properly accounted for and no errors were posted. Independent reviews are also an important monitoring function to ensure that bank statements are accurate and all transactions are being recorded.

Corrective Action Plan

The district's management team, including the Assistant Superintendent of Business Services, Director of Nutrition Services, and Director of Fiscal Services have met and developed written procedures that address the auditor's recommendations in detail. In addition, Nutrition Services is recruiting for a new part-time position that will be responsible for daily deposits. Additional reconciliations and reviews will be conducted and variances investigated by management.

Purchasing Deficiency – Purchase Requisitions/Orders and Travel and Conferences

2016-003 Code 30000

Criteria or Specific Requirements

Purchase requisitions/orders are essential internal control tools that are used in the District's disbursement process that control multiple parameters. The following are primary uses of purchase requisitions/orders within the scope of school District accounting:

- 1) They provide budgetary controls, including the determination of adequate funds budgeted and account code used to record the transactions.
- 2) They provide a trail and hierarchy of authorization and approval.
- 3) They also serve to filter numerous compliance requirements and assist in the filtering of potential activities that may be in violation of rules of regulations stipulated by restricted funds.
- 4) They provide a clear confirmation to the District's accounts payable personnel to pay the vendor(s) subsequent to the purchase transaction taking place.

Moreover, effective use of purchase requisitions/orders clearly indicate that the District's disbursement procedures are designed and working effectively with a good business practice in mind.

AZUSA UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2016

Condition

It appears that the District's sites/departments are regularly engaging vendors prior to the processing and approval of purchase requisitions/orders. Specifically, we observed 3 out of 40 purchase orders being created on dates subsequent to vendor invoice date. In addition, we observed 9 out of 40 travel and conference disbursements were not approved either with a purchase order or conference attendance request form. Both of these instances are indicative that the vendor was engaged prior to approval/authorization of the purchase request.

Questioned Costs

There were no questioned costs associated with the condition identified.

Context

The condition was identified through the course of review and assessment of the District's purchase orders, disbursement procedures, vendor invoices, and through inquiry with the District's accounts payable personnel.

Effect

While the District has established purchasing procedures, the District appears to have circumvented its own protocol. The foundation of internal control relies on following and adhering to established procedures. Given the condition identified, it appears that there is a significant deficiency with respect the District's purchasing procedures.

Cause

It appears that the condition materialized due to the following two primary reasons:

- 1) Inadequate training, enforcement, and dissemination of the purchasing procedures to its site/department personnel.
- 2) Absence of a purchasing department or designated personnel with the ability to intervene and prevent/eliminate circumvention of established purchasing procedures.

Recommendation

The District should strongly consider centralizing all purchasing related activities and all purchasing related activities and responsibilities should be directly delegated to the District's Purchasing Department. We strongly encourage the District to provide training to all impacted personnel on the District's proper purchasing protocol, which includes the effective use of purchase requisitions/orders. Furthermore, we recommend the District's Business Services Department to make an effort to enforce its purchasing procedures in an effort to discourage sites/departments from continuing to engage in similar business practices.

AZUSA UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2016

Corrective Action Plan

The district has implemented on-line purchase requisitions and account-level budgetary controls, which includes a workflow approval process. In addition, detailed procedures are being developed to train site-staff on purchasing best-practices and board policies.

AZUSA UNIFIED SCHOOL DISTRICT

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

The following findings represent significant deficiencies, and/or material instances of noncompliance including questioned costs that are required to be reported by the Uniform Guidance. The findings have been coded as follows:

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
50000	Federal Compliance

2016-004 **Code 50000**

Federal Programs Affected

Program Names: Child Nutrition Cluster and NCLB: Title I, Part A, Basic Grants Low-Income and Neglected

CFDA Number: 10.553, 10.555, 10.556, 10.559, 84.010

Pass-Through Entity: California Department of Education

Federal Agency: U.S. Department of Agriculture and U.S. Department of Education

Criteria or Specific Requirements

Title 34, Code of Federal Regulations, Part 80, Subpart C, Section 80.35 requires grantees and subgrantees not to make any award or permit any award (subgrant or contract) at any tier to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance program under Executive Order 12549, "Debarment and Suspension." Additionally, Title 2, Code of Federal Regulations, Part 180 provides guidelines to agencies on government-wide debarment and suspension requirements that must be followed.

Condition

The District's categorical operation procedure did not have a policy to ensure compliance with Title 34 CFR, Part 80, Subpart C, Section 80.35. Specifically, the District did not have a method of reviewing and identifying vendors that have been awarded contracts that may be suspended or debarred.

Questioned Costs

There were no questioned costs identified since the District did not expend any of its Federal awards on debarred and/or suspended parties.

Context

The condition was identified as a result of inquiry with District's categorical department, purchasing department and fiscal services personnel and through review of supporting documents.

AZUSA UNIFIED SCHOOL DISTRICT

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

Effect

The District has been engaging in procurement activities without verifying if the vendor is subject to debarment and/or suspension. The District currently assumes all the risk of non-compliance with requirements stated under 34 CFR, Part 80, Subpart C, Section 80.35 due to the lack of implemented review and monitoring procedures.

Cause

The condition identified appears to have materialized due to the District's lack of awareness of requirements under 34 CFR, Part 80, Subpart C, Section 80.35 and 34 CFR Part 180.

Recommendation

The District should review the requirements stated in 34 CFR, Part 80, Subpart C, Section 80.35 and implement a procedure to address the deficiency currently identified with the District's procurement process. The District should draft its procedures to conform to requirements stated in 2 CFR Part 180 to ensure that the District's policy is consistent with the Office of Management and Budget's Debarment and Suspension guidelines.

Corrective Action Plan

The district is developing detailed purchasing procedures that include compliance with the OMB's Debarment and Suspension guidelines. In addition, the district has hired a purchasing supervisor and one additional permanent staff position to assist. Staff are joining purchasing professional associations and ongoing staff development and training will be provided to the purchasing department staff.

2016-005

Code 50000

Federal Program Affected

Program Name: Child Nutrition Cluster
CFDA Number: 10.553, 10.555, 10.556, 10.559
Pass-Through Entity: California Department of Education
Federal Agency: U.S. Department of Agriculture

Criteria or Specific Requirements

Title 34, Code of Federal Regulations, Part 80, Subpart C, Section 80.25 requires grantees and subgrantees to maintain effective control and accountability for all grant and subgrant cash, real and personal property, and other assets. Additionally, Title 34, Code of Federal Regulations, Part 80, Subpart C, Section 80.40 states that grantees must manage day-to-day operations of grant and subgrant supported activities to assure compliance with Federal requirements.

AZUSA UNIFIED SCHOOL DISTRICT

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

Condition

Through review of the District's control procedures over program income, it was noted that proper documentation has not been maintained to support the completeness of meal fees collected from school sites. Cash deposits could not be verified to adequate supporting documentation to provide reasonable assurance that the deposited amounts represent the actual amount of collections made at school sites.

Questioned Costs

There were no questioned costs associated with this identified condition, as it pertains to controls over receipting and depositing procedures.

Context

The condition was identified as a result of inquiry with District categorical personnel and through review of supporting documents.

Effect

The District has not implemented adequate procedures to establish a chain of custody for cash collections from school sites. School sites do not utilize point of sale reports, deposit forms, or similar documentation to validate the cash collections made at school sites. These procedural weaknesses may potentially cause misappropriations of cash collected through program-related activities.

Cause

The condition identified appears to have materialized due to the District's ineffective internal controls in relation to requirements under 34, CFR, Part 80, Subpart C, Section 80.25 and 34, CFR, Part 80, Subpart C, Section 80.40.

Recommendation

The District should review the requirements stated in 34, CFR, Part 80, Subpart C, Section 80.25 and 34, CFR, Part 80, Subpart C, Section 80.40 and implement a procedure to address the deficiency currently identified with the District's internal control procedures in regards to cash collections and deposits.

Corrective Action Plan

The district's management team, including the Assistant Superintendent of Business Services, Director of Nutrition Services, and Director of Fiscal Services have met and developed written procedures that address the auditor's recommendations in detail. In addition, Nutrition Services is recruiting for a new part-time position that will be responsible for daily deposits. Additional reconciliations and reviews will be conducted and variances investigated by management.

AZUSA UNIFIED SCHOOL DISTRICT

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

2016-006 Code 50000

Federal Programs Affected

Program Name: Child Nutrition Cluster and NCLB: Title I, Part A, Basic Grants Low-Income and Neglected

CFDA Number: 10.553, 10.555, 10.556, 10.559, 84.010

Pass-Through Entity: California Department of Education

Federal Agency: U.S. Department of Agriculture and U.S. Department of Education

Criteria or Specific Requirements

Title 34, Code of Federal Regulations, Part 76, Subpart G, Section 76.702 requires states and subgrantees to use fiscal control and fund accounting procedures that insure proper disbursement of and accounting for Federal funds. Additionally, Title 34, Code of Federal Regulations, Part 80, Subpart C, Section 80.25 requires grantees and subgrantees to maintain effective control and accountability for all grant and subgrant cash, real and personal property, and other assets and must assure that all such property is used solely for authorized purposes.

Condition

Through review of the District's control procedures over categorical disbursements, it was noted that current fiscal controls are not being utilized consistently. Six out of 40 expenditures tested contained invoices dated prior to the associated purchase order, indicating that proper approvals were not provided prior to purchase. Additionally, it appears that the District does not exercise an explicitly documented purchase requisition approval process. Purchase requisition forms or similar documentation supporting the existence of requisition approval procedures have not been maintained.

Questioned Costs

There were no questioned costs identified as the tested expenditures that were not preapproved are still in compliance with program requirements.

Context

The condition was identified as a result of inquiry with District personnel in both the purchasing department and fiscal services department and through review of supporting documents.

Effect

The District has been engaging with vendors for purchases that may not be in compliance with program requirements. This is a direct result of the control deficiencies noted above. The District currently assumes all the risk of non-compliance with requirements stated under 34 CFR, Part 76, Subpart G, Section 76.702 and 34, CFR, Part 80, Subpart C, Section 80.25 due to the lack of implemented review and monitoring procedures.

AZUSA UNIFIED SCHOOL DISTRICT

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

Cause

The condition identified appears to have materialized due to the District's ineffective internal controls in relation to requirements under 34 CFR, Part 76, Subpart G, Section 76.702 and 34, CFR, Part 80, Subpart C, Section 80.25.

Recommendation

The District should review the requirements stated in 34 CFR, Part 76, Subpart G, Section 76.702 and 34, CFR, Part 80, Subpart C, Section 80.25 and implement a procedure to address the deficiency currently identified with the District's internal control procedures in regards to disbursements.

Corrective Action Plan

The district has implemented on-line purchase requisitions and account-level budgetary controls, which includes a workflow approval process. In addition, detailed procedures are being developed to train site-staff on purchasing best-practices and board policies.

AZUSA UNIFIED SCHOOL DISTRICT

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

The following findings represent instances of noncompliance and/or questioned costs relating to State program laws and regulations. The findings have been coded as follows:

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
72000	School Accountability Report Card

School Accountability Report Card

2016-007 Code 72000

Criteria or Specific Requirements

As required by California *Education Code* Section 33126(b) (8), the School Accountability Report Card (SARC) shall include, but is not limited to, assessment of the safety, cleanliness, and adequacy of school facilities, including any need for maintenance.

Condition

The SARC among other information includes a report on adequacy of school facilities which is derived from the Facilities Inspection Tool (FIT). We were unable to compare the information reported on the facilities for Sierra High School because the District could not locate the facilities inspection tool. Without being able to compare the information, we could not determine whether the information in the SARC for facilities is accurately reported.

Questioned Costs

There were no questioned costs associated with the condition identified.

Context

The condition was identified as a result of our inquiry with the District's Facilities and Education Services Department personnel and through review of supporting documents.

Effect

The District has not complied with requirements identified in California *Education Code* Section 33126 (a) which states that the SARC shall provide data including adequacy of school facilities by which a parent can make meaningful comparisons between public schools. The adequacy of school facilities reported on the SARC could not be verified.

Cause

The condition identified appears to have materialized primarily due to the lack of review process.

AZUSA UNIFIED SCHOOL DISTRICT

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

Recommendation

The District should become familiar with all the requirements identified in California Education Code Section 33126. The Facility Inspection Tools should be kept on file to substantiate the condition of the District's facilities as reported on the SARC. Additionally, the District should provide management oversight to employees responsible for performing key compliance requirements.

Corrective Action Plan

The district is familiar with the requirements identified in California Education Code Section 33126 and a Facility Inspection Tool will be kept on file to substantiate the reported facility information on the SARC. The Director of Maintenance and Operations will be responsible for this compliance requirement.

School Accountability Report Card

2016-008 Code 72000

Criteria or Specific Requirements

As required by California Education Code Section 33126(b) (8), the School Accountability Report Card (SARC) shall include, but is not limited to, assessment of the safety, cleanliness, and adequacy of school facilities, including any need for maintenance.

Condition

The SARC among other information includes a report on adequacy of school facilities which is derived from the Facilities Inspection Tool (FIT). Azusa High School was included for inspection by a third party vendor. In reviewing the SARC for Azusa High School, the SARC reported a status of Exemplary. It was noted while reading and reviewing the notes of the inspection report (FIT); the school did not qualify for exemplary status, and is therefore incorrectly classified.

Questioned Costs

There were no questioned costs associated with the condition identified.

Context

The condition was identified as a result of our inquiry with the District's Facilities and Education Services Department personnel and through review of supporting documents.

AZUSA UNIFIED SCHOOL DISTRICT

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

Effect

The District has not complied with requirements identified in California Education Code Section 33126 (a) which states that the SARC shall provide data including adequacy of school facilities by which a parent can make meaningful comparisons between public schools. The adequacy of school facilities status reported on the SARC is incorrect.

Cause

The condition identified appears to have materialized primarily due to the lack of review process.

Recommendation

The District should become familiar with all the requirements identified in California Education Code Section 33126. Also, the District should have the contracted vendor use the same Facilities Inspection Tool (FIT) used by the County, which calculates facility status based on a numeric grading system in order to more accurately report facilities status in the SARC. Additionally, the District should provide management oversight to employees responsible for performing key compliance requirements.

Corrective Action Plan

The district is familiar with the requirements identified in California Education Code Section 33126 and a Facility Inspection Tool will be kept on file to substantiate the reported facility information on the SARC. The Director of Maintenance and Operations will be responsible for this compliance requirement.

AZUSA UNIFIED SCHOOL DISTRICT

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

Except as specified in previous sections of this report, summarized below is the current status of all audit findings reported in the prior year's schedule of financial statement findings.

Federal Awards Findings

National School Lunch Program Expenditures

2015-001 Code 50000

Federal Program Affected: Child Nutrition Cluster

Federal Agency: U.S. Department of Agriculture
Pass-through Entity: California Department of Education
Program Names: School Breakfast Program (CFDA No. 10.553)
National School Lunch Program (CFDA No. 10.555)

Criteria or Specific Requirements

School Food Authorities participating in the Federal School Nutrition Program must observe both State and Federal limitations on the use of cafeteria funds. The District should ensure that all expenditures are in accordance with 7 CFR parts 210, 220, 3015, 3016, and 3019, and 2 CFR parts 225 and 230 (formerly Office of Management and Budgets Circulars A-87 and A-122 respectively).

Condition

The District charged unallowable expenditures to the cafeteria fund. The two exceptions were for utilities. As per the U.S. Department of Labor, the cost of utilities is allowable, only when accounted for by a separate meter.

Questioned Costs

The sum of the inappropriate expenditures were \$54,178.

Context

Two out of our forty expenditures tested.

Effect

The District should transfer in funds from unrestricted sources to reimburse the cafeteria program for the unallowable expenses.

Cause

The District misunderstood what were allowable expenditures.

AZUSA UNIFIED SCHOOL DISTRICT

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

Recommendation

The District should place the proper procedures and policies in place to ensure that expenditures are made in accordance with State and Federal Guidelines.

Current Status

Implemented.

Cafeteria Fund Cash Reserves

2015-002 Code 50000

Federal Program Affected:

Federal Agency: U.S. Department of Agriculture

Pass-through Entity: California Department of Education

Program Names: Child Nutrition Cluster:

School Breakfast Program (CFDA No. 10.553)

National School Lunch Program (CFDA No. 10.555)

Criteria or Specific Requirements

The school food authority should limit its net cash resources to an amount that does not exceed three months average expenditures in accordance with 7 CFR Section 210.14(b).

Condition

At June 30, 2015, fund balance in the Cafeteria Fund was \$2,425,372, which exceeds the average of three months expenditures by \$1,080,526.

Questioned Costs

None.

Context

This affects the Child Nutrition Cluster.

Cause

The District has more than three months worth of expenditures in its ending fund balance.

Current Status

Implemented.

AZUSA UNIFIED SCHOOL DISTRICT

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

State Awards Findings

CALPADS Unduplicated Pupil Counts

2015-003 Code 40000

Criteria or Specific Requirements

Supplemental and concentration grant amounts are calculated based on the percentage of "unduplicated pupils" enrolled in the LEA on Census Day (first Wednesday in October). The percentage equals:

- Unduplicated count of pupils who (1) are English learners, (2) meet income or categorical eligibility requirements for free or reduced-price meals under the National School Lunch Program, or (3) are foster youth. "Unduplicated count" means that each pupil is counted only once even if the pupil meets more than one of these criteria (EC sections 2574(b)(2) and 42238.02(b)(1)).
- Divided by total enrollment in the LEA (EC sections 2574(b)(1) and 42238.02(b)(5)). All pupil counts are based on Fall 1 certified enrollment reported in the CALPADS as of Census Day

Condition

During our testing of the free and reduced price meal eligible students who are also ELAS designated students reported in the CALPADS 1.17 and 1.18 reports, we noted that one student was reported as qualifying for free or reduced priced meals and ELAS designation but was not a student during the 2014-15 fiscal year.

Questioned Costs

\$817. This amount was determined by calculating the difference between the District's original total LCFF revenues and the LCFF revenues adjusted for the decrease in the unduplicated pupil counts.

Context

We noted one error in one the four schools tested.

AZUSA UNIFIED SCHOOL DISTRICT

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

Effect

The unduplicated pupil counts reported in the CALPADS 1.17 and 1.18 reports should be adjusted for the following changes as a result of the procedures performed:

School Site:	CALPADS Reported	Adjusted based on FRPM eligibility	Adjusted Total
Sierra High	174	(1)	173
Agregate of remaining schools	7,633	-	7,633
District-wide	7,807	(1)	7,806

The enrollment count of 9,282 was not impacted as a result of the procedures performed.

Recommendation

We recommend that the District work with the Child Nutrition Services department to update the CALPADS system once all applications are received. Although there is a grace period recognized at a local level, the district should update CALPADS retroactively to reflect the current year application information in the reporting software. We also recommend that procedures are established to ensure that the student information system which is used for CALPADS reporting, is updated to reflect the changes made in the Child Nutrition Services internal system prior to the submission of the CALPADS report.

Current Status

Implemented.

School Accountability Report Card

2015-004 Code 72000

Criteria or Specific Requirements

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 governing board must publish the School Accountability Report Card (SARC) for each school by February 1st of each year.

AZUSA UNIFIED SCHOOL DISTRICT

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

Condition

It was noted that the School Facility Repair Status on the SARC for Charles Lee Elementary did not match the FIT form and that Gladstone High did not have a proper FIT form on file.

Questioned Costs

None.

Context

The error was noted for two of the four schools selected.

Cause

The SARC for Charles Lee Elementary reported the "Cleanliness" and "Electrical" in good condition while the FIT form stated a fair rating.

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. In addition, the SARCs should be published on an annual basis by February 1st.

Current Status

Not implemented, see current year finding and recommendation 2016-007 and 2016-008.



Governing Board
Azusa Unified School District
Azusa, California

In planning and performing our audit of the financial statements of Azusa Unified School District, for the year ended June 30, 2016, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted matters that are opportunities 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 5, 2016 on the government-wide financial statements of the District.

PAYROLL AND PERSONNEL

Observation

Based on our review of the employee leave recording process, since it is manually calculated, the current leave tracking procedures may be prone to human error and/or unapproved payroll expenditures. In addition, lack of adequate review procedures may result in incorrect leave balances being awarded, deducted, or carried over into the subsequent fiscal year. One out of 40 vacation requests selected was not properly entered into the leave tracking spreadsheet maintained by payroll personnel.

Recommendation

The District should implement an explicitly documented review procedure to ensure that the tracking spreadsheet has been updated with correct employee leave information. The tracking spreadsheet should be reconciled to time sheets that have been submitted to the District and any discrepancies should be corrected.

ASSOCIATED STUDENT BODY FUNDS (ASB)

Foothill Middle School

Observations

During the testing of student body funds, the following issues were noted:

1. One of eight deposits selected for testing could not be traced to sub-receipts, tally logs, or equivalent receipting documentation. In addition, three of eight deposits selected for testing were not deposited in a timely manner. The delay in deposit ranged from 11 to 31 days.
2. Three of 10 disbursements selected for testing were not approved by the ASB prior to purchase.
3. Both revenue potential forms selected for review were incomplete as they did not indicate actual revenues and expenditures at the completion of the fundraiser.
4. One of two ticketed events selected for testing did not contain a ticket sales form documenting the beginning and ending ticket numbers, tickets sold, cash received, and the date of the ticket sales. A ticket control log is not being used to document the beginning and ending ticket numbers for each ticket roll.

Recommendations

1. Pre-numbered triplicate receipts or logs should be utilized when collecting money for all ASB events and transactions. If utilizing a log, the student's name and amount being turned in should be documented. If using a receipt book, the receipts should be issued in sequential order to all individuals turning in monies for ASB events. The white copy of the receipt should be issued to the person turning in the monies, the yellow receipt or log sheet should be utilized for deposit supporting documentation, and the pink copy should be retained in the receipt book for audit purposes. When teachers are turning in monies for deposit, a cash count sheet should be turned in with the yellow copy of the receipts and monies to clearly identify the total amount being turned in. ASB's should, at a minimum, make their deposits once a week to minimize the amount of cash held at the sites. During events of high cash activity, cash should be deposited immediately. The District should establish a specific guideline for this procedure including the maximum cash on hand that should be maintained at the site. Also the district should establish cash deposit guidelines that take into consideration holiday and weekend scheduling.
2. In order to ensure proper internal controls over the ASB disbursements, the site should ensure that all disbursement transactions are pre-approved by the student council. This would allow the student council to determine if the proposed activities are appropriate and to determine if sufficient funding is available to finance the activities or the purchases.
3. The ASB should require all completed revenue potential forms to be forwarded to the ASB advisor to be reviewed. A third party review of completed revenue potential forms would ensure that the ASBs are adequately monitoring the profitability and accountability of their fundraising events. Moreover, by documenting the revenues from each fundraising event and reconciling the amount of actual cash collected provides a method to verify that all revenues are deposited intact. Review and approving the fundraising events is an important control activity to prevent any potential unacceptable ASB activity. All fundraising events should be approved by either the ASB student council or site administrator(s) prior to the event taking place to ensure that the activities related to fundraisers are appropriate in a school setting.

4. Ticket sales forms should be used for each ticketed event to reconcile the number of tickets sold to the amount of cash received. A master ticket log should be maintained which notes the type of ticket, color, and current beginning ticket number in the role. When ticket rolls are issued, they should be logged out noting the beginning ticket number in the roll, the dollar amount of the tickets, and to whom the roll was issued. When the ticket sales recap form is returned, the form should be reconciled to the log.

Center Middle School

Observations

During the testing of student body funds, the following issues were noted:

1. One of nine deposits selected could not be traced to sub-receipts, tally logs, or equivalent receipting documentation. In addition, seven of nine deposits selected were not deposited in a timely manner. The delay in deposit ranged from 11 to 75 days.
2. Both fundraisers selected did not have a revenue potential form.

Recommendations

1. Pre-numbered triplicate receipts or logs should be utilized when collecting money for all ASB events and transactions. If utilizing a log, the students name and amount being turned in should be documented. If using a receipt book, the receipts should be issued in sequential order to all individuals turning in monies for ASB events. The white copy of the receipt should be issued to the person turning in the monies, the yellow receipt or log sheet should be utilized for deposit back-up, and the pink copy should be retained in the receipt book for audit purposes. When teachers are turning in monies for deposit, a cash count sheet should be turned in with the yellow copy of the receipts and monies to clearly identify the total amount being turned in. ASB's should, at a minimum, make their deposits once a week to minimize the amount of cash held at the sites. During events of high cash activity, cash should be deposited immediately. The District should establish a specific guideline for this procedure including the maximum cash on hand that should be maintained at the site. Also, the district should establish cash deposit guidelines that take into consideration holiday and weekend scheduling.
2. The ASB should require all completed revenue potential forms to be forwarded to the ASB advisor to be reviewed. A third party review of completed revenue potential forms would ensure that the ASBs are adequately monitoring the profitability and accountability of their fundraising events. Moreover, by documenting the revenues from each fundraising event and reconciling the amount of actual cash collected provides a method to verify that all revenues are deposited intact. Review and approving the fundraising events is an important control activity to prevent any potential unacceptable ASB activity. All fundraising events should be approved by either the ASB student council or site administrator(s) prior to the event taking place to ensure that the activities related to fundraisers are appropriate in a school setting.

Azusa High School

Observation

During the review of the cash collections procedures, we noted four of 15 deposit batches selected contained receipts that were not deposited in a timely manner. The delay in deposit times ranged from 11 to 32 days.

Recommendation

ASB's should, at a minimum, make their deposits once a week to minimize the amount of cash held at the sites. During events of high cash activity, cash should be deposited immediately. The District should establish a specific guideline for this procedure including the maximum cash on hand that should be maintained at the site. Also, the district should establish cash deposit guidelines that take into consideration holiday and weekend scheduling.

Sierra High School

Observations

During the testing of student body funds, the following issues were noted:

1. All four deposits selected were not supported by proper receipting documentation. Triplicate receipts, tally sheets, or comparable supporting documentation has not been maintained.
2. One of three disbursements selected was not approved by the ASB prior to purchase.
3. One of three fundraisers selected was not supported by approval within the ASB minutes. One fundraiser's revenue potential form indicated an expenditure amount that did not agree to the associated purchase documentation. Two of the three tested fundraisers were not supported by adequate receipting documentation. Triplicate receipts, tally sheets, or comparable receipting documentation has not been used to document cash received during fundraisers.

Recommendations

1. ASB's should, at a minimum, make their deposits once a week to minimize the amount of cash held at the sites. During events of high cash activity, cash should be deposited immediately. The District should establish a specific guideline for this procedure including the maximum cash on hand that should be maintained at the site. Also, the district should establish cash deposit guidelines that take into consideration holiday and weekend scheduling.
2. In order to ensure proper internal controls over the ASB disbursements, the site should ensure that all disbursement transactions are pre-approved by authorized administrative personnel and the student council. This would allow the reviewing administrator and/or the student council to determine if the proposed activities are appropriate and to determine if sufficient funding is available to finance the activities or the purchases.

3. The ASB should require all completed revenue potential forms to be forwarded to the ASB advisor to be reviewed. A third party review of completed revenue potential forms would ensure that the ASBs are adequately monitoring the profitability and accountability of their fundraising events. Moreover, by documenting the revenues from each fundraising event and reconciling the amount of actual cash collected provides a method to verify that all revenues are deposited intact. Review and approving the fundraising events is an important control activity to prevent any potential unacceptable ASB activity. All fundraising events should be approved by either the ASB student council or site administrator(s) prior to the event taking place to ensure that the activities related to fundraisers are appropriate in a school setting.

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

Vavrinik, Jino, Day & Co., LLP

Rancho Cucamonga, California
December 5, 2016