

**BANNING
UNIFIED SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2016

BANNING UNIFIED SCHOOL DISTRICT

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FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 5 through 13, budgetary comparison schedules on pages 63 and 64, schedule of other postemployment benefits funding progress on page 65, schedule of the District's proportionate share of the net pension liability on page 66, and the schedule of District contributions on page 67, 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 Banning Unified School District's basic financial statements. The accompanying supplementary information such as the combining and individual non-major fund financial statements and schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the other supplementary information as listed on the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2016, on our consideration of the Banning 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 Banning Unified School District's internal control over financial reporting and compliance.

Vavinek Tume Day & Co. LLP

Riverside, California
November 30, 2016



This section of Banning 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 Banning Unified School District.

BANNING 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*, we separate the District activities as follows:

Governmental Activities - All of the District's services are reported in this category. This includes the education of transitional kindergarten through grade twelve students, adult education students, 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.

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.

BANNING UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

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, including our funds for associated student body activities. The District's fiduciary activities are reported in the *Statements 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 overall financial status increased from the prior year as our District-wide net position was increased from \$5.0 million to \$8.0 million.
- Total governmental revenues were \$59.7 million.
- The District's combined governmental fund balances increased by \$3.4 million, primarily due to additional funding.
- The total cost of basic programs was \$56.6 million. Because a portion of these costs were paid for with charges, fees, and inter-governmental aid, the net cost that required taxpayer funding was only \$11.2 million.
- Average daily attendance (grades TK-12) increased by 95 over the past two years.

BANNING UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

THE DISTRICT AS A WHOLE

Net Position

The District's net position was \$8.0 million for the fiscal year ended June 30, 2016. Restricted net position are reported separately to show legal constraints from debt covenants and enabling legislation that limit the Governing Board's ability to use those 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

	Governmental Activities	
	2016	2015
ASSETS		
Current and other assets	\$ 17,940,399	\$ 13,653,258
Capital assets	78,693,880	79,439,780
Total Assets	96,634,279	93,093,038
Deferred Outflows of Resources	10,014,834	2,423,672
LIABILITIES		
Current liabilities	3,547,083	3,274,141
Long-term obligations	55,426,768	52,019,280
Aggregate net pension liability	32,521,812	27,654,965
Total Liabilities	91,495,663	82,948,386
Deferred Inflows of Resources	7,106,670	7,599,065
NET POSITION		
Net investment in capital assets	31,599,568	33,388,276
Restricted	6,583,366	5,576,148
Unrestricted	(30,136,154)	(33,995,165)
Total Net Position	\$ 8,046,780	\$ 4,969,259

BANNING 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 and rearranges them slightly so you can see our net increase or decrease for the year.

Table 2

	Governmental Activities	
	<u>2016</u>	<u>2015</u>
Revenues		
Program revenues:		
Charges for services	\$ 223,702	\$ 165,049
Operating grants and contributions	10,637,913	11,256,891
Capital grants and contributions	2	-
General revenues:		
State and Federal aid	36,554,215	28,253,780
Property and other taxes	11,240,167	10,850,643
Other general revenues	<u>1,042,412</u>	<u>1,502,873</u>
Total Revenues	<u>59,698,411</u>	<u>52,029,236</u>
Expenses		
Instruction-related	35,894,793	32,887,435
Pupil services	7,826,464	6,482,656
Administration	4,287,456	3,320,916
Plant services	5,707,040	4,915,729
Other	<u>2,905,137</u>	<u>3,336,732</u>
Total Expenses	<u>56,620,890</u>	<u>50,943,468</u>
Change in Net Position	<u>\$ 3,077,521</u>	<u>\$ 1,085,768</u>

Governmental Activities

As reported in the *Statement of Activities* on page 15, the cost of all of our governmental activities this year was \$56.6 million compared to \$50.9 million in the prior year, an increase of \$5.7 million or 11.2 percent. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$11.2 million because the cost was paid by those who benefited from the programs (\$0.2 million) or by other governments and organizations who subsidized certain programs with grants and contributions \$10.6 million). We paid for the remaining "public benefit" portion of our governmental activities with \$37.6 million in State funds and with other revenues like interest and general entitlements.

BANNING UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

In Table 3, we have presented the net cost of each of the District's largest functions – instruction, instruction-related activities, other pupil services, administration, plant services, and other services. 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

	Total Net Cost of Services	
	2016	2015
Instruction	\$ 26,785,772	\$ 23,635,285
Instruction-related activities	2,843,517	2,648,794
Other pupil services	4,580,512	2,771,038
Administration	3,840,932	2,794,319
Plant services	5,526,976	4,882,983
Other	2,181,564	2,789,109
Total	<u>\$ 45,759,273</u>	<u>\$ 39,521,528</u>

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$14.7 million, which is an increase of \$3.4 million from last year (Table 4).

Table 4

	Balances and Activity			
	July 1, 2015	Revenues	Expenditures	June 30, 2016
General Fund	\$ 6,232,822	\$ 53,373,167	\$ 50,175,508	\$ 9,430,481
Adult Education Fund	-	223,085	207,918	15,167
Cafeteria Fund	2,206,921	2,945,677	3,168,583	1,984,015
Building Fund	54,628	588	3,938	51,278
Capital Facilities Fund	449,647	408,351	135,083	722,915
County School Facilities Fund	436	2	-	438
Bond Interest and Redemption Fund	2,284,398	37,922,945	37,749,676	2,457,667
Total	<u>\$ 11,228,852</u>	<u>\$ 94,873,815</u>	<u>\$ 91,440,706</u>	<u>\$ 14,661,961</u>

The primary reason for this increase is:

Additional funding received within the General Fund of approximately \$8.3 million.

BANNING UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

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 August 25, 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 63.)

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2016, the District had \$78.7 million in a broad range of capital assets (net of depreciation), including land, buildings, furniture, and equipment. This amount represents a net decrease (including additions, deductions, and depreciation) of \$0.7 million, or 1.0 percent, from last year (Table 5).

Table 5

(Net of Accumulated Depreciation)	Governmental Activities	
	2016	2015
Land and construction in process	\$ 5,127,234	\$ 4,759,602
Buildings and improvements/Site improvements	71,843,648	73,275,298
Equipment	1,722,998	1,404,880
Total	<u>\$ 78,693,880</u>	<u>\$ 79,439,780</u>

This year's additions of \$1.5 million relate to modernization expenditures and on-going bond funded projects. We present more detailed information about our capital assets in Note 5 to the financial statements. Current year depreciation expense was \$2.3 million.

Long-Term Obligations

At the end of this year, the District had \$43.9 million in bonds outstanding, which is a decrease of \$2.4 million from last year.

Table 6

	Governmental Activities	
	2016	2015
General obligation bonds (financed with property taxes)	\$ 43,911,102	\$ 46,339,796
Premium on issuance	8,433,031	3,123,530
Capital leases	208,405	133,860
Accumulated vacation	652,513	616,930
Net OPEB obligation	2,221,717	1,805,164
Total	<u>\$ 55,426,768</u>	<u>\$ 52,019,280</u>

We present more detailed information regarding our long-term obligations in Note 9 of the financial statements.

BANNING UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

Aggregate Net Pension Liability (NPL)

At year end, the District had a aggregate net pension liability of \$32.5 million as a result of the adoption of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. The District, therefore, recorded its proportionate share of net pension liabilities for CalSTRS and CalPERS.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

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

When we went to budget for the 2015-2016 school year, we projected ADA of 4321.29 (flat with 2014-2015 ADA). We are actually funded at 4310.66, a loss of 10.63. When the multi-year projection was performed in the 2015-2016 budget adoption, we were using 4309.25 for 2016-2017. The budget reflected the prior year guarantee being used for 2016-2017 of 4244.83, a reduction of 64.42 **FUNDED** ADA. At an average \$10,150.00 per ADA, this is a loss of \$653,863.00 just in LCFF sources.

For the 2016-2017 budget year, we increased the funds received through the LCFF model by \$2,570,870.00. When performing the minimum proportionality calculation required identifying the Base grant and the Supplemental and Concentration dollars, the increase is allocated \$732,220.00 to Base and \$1,838,650.00 to Supplemental and Concentration.

Even though we are funding on less ADA in 2016-2017, there was an approximate \$751.00 per ADA increase with the application of the gap at 54.84 percent. There is no COLA applied to the 2016-2017 budget as directed through the information released in the May revise.

Federal revenues, both unrestricted and restricted, remain relatively flat from 2015-2016 to 2016-2017. In the 2015-2016 budget year, there were substantial carryovers from 2014-2015 that were a part of the final budget available for the 2015-2016 year. Many of those resources continue to have carryover which will be brought into the 2016-2017 budget at the conclusion of the audit report. Due to the nature of these funds, they do not appear as assigned fund balances, as these restricted funding sources cannot be recognized in the SACS software in the budget process. The carryover dollar amounts will appear in the "CAT" form of the Unaudited Actuals report when we close the books for 2015-2016.

State revenues are reduced substantially from 2015-2016 to 2016-2017 due to the decrease in the per student amount of funding for the One-Time Mandated Cost Reimbursements. The funding for 2015-2016 was \$2,273,617.00. In 2016-2017, it is budgeted to be \$914,640.00 – a decrease of \$1,358,977.00.

The District budgeted for class sizes of 24:1 in grades Transitional Kindergarten through third. For grades fourth through twelfth, the ratio was 30:1. Enrollment was projected at 4,442.

BANNING UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

Employee negotiations had not been settled prior to the adoption of the budget. Subsequently, both groups reached agreements with percentages of increase applied to the salary schedules, as well as a flat \$2,000.00 per cell on the BTA salary schedule and an increase to the health benefit cap of \$11,000.00 per full-time equivalent. Although the budget did not reflect the impact of these negotiations, there were sufficient funds available in the unrestricted General Fund balance and monies that could be shifted in the Supplemental and Concentration funds to support the cost of the settlements.

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 the Superintendent at Banning Unified School District, 161 West Williams, Banning, California, 92220, or e-mail at rguillen@banning.k12.ca.us.

BANNING UNIFIED SCHOOL DISTRICT

STATEMENT OF NET POSITION JUNE 30, 2016

	Governmental Activities
ASSETS	
Deposits and investments	\$ 14,495,987
Receivables	3,421,210
Stores inventories	23,202
Capital assets:	
Land and construction in process	5,127,234
Other capital assets	102,062,318
Less: Accumulated depreciation	<u>(28,495,672)</u>
Total Capital Assets	<u>78,693,880</u>
Total Assets	<u>96,634,279</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred charge on refunding	3,031,632
Deferred outflows of resources related to pensions	<u>6,983,202</u>
Total Deferred Outflows of Resources	<u>10,014,834</u>
LIABILITIES	
Accounts payable	3,030,800
Accrued interest payable	268,645
Unearned revenue	247,638
Long-term obligations:	
Current portion of long-term obligations other than pensions	1,778,213
Noncurrent portion of long-term obligations other than pensions	<u>53,648,555</u>
Total Long-Term Obligations	<u>55,426,768</u>
Aggregate net pension liability	<u>32,521,812</u>
Total Liabilities	<u>91,495,663</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to pensions	<u>7,106,670</u>
NET POSITION	
Net investment in capital assets	31,599,568
Restricted for:	
Debt service	2,189,022
Capital projects	685,941
Educational programs	1,741,130
Other activities	1,967,273
Unrestricted	<u>(30,136,154)</u>
Total Net Position	<u><u>\$ 8,046,780</u></u>

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

BANNING UNIFIED SCHOOL DISTRICT

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

Functions/Programs	Expenses	Program Revenues			Governmental Activities	Net (Expenses) Revenues and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions		
Governmental Activities:						
Instruction	\$ 32,218,938	\$ 44,012	\$ 5,389,152	\$ 2	\$ (26,785,772)	
Instruction-related activities:						
Supervision of instruction	644,818	-	346,243	-	(298,575)	
Instructional library, media, and technology	404,223	3,520	269,007	-	(131,696)	
School site administration	2,626,814	14,203	199,365	-	(2,413,246)	
Pupil services:						
Home-to-school transportation	1,722,347	-	-	-	(1,722,347)	
Food services	2,881,333	143,994	2,357,646	-	(379,693)	
All other pupil services	3,222,784	-	744,312	-	(2,478,472)	
Administration:						
Data processing	738,665	-	-	-	(738,665)	
All other administration	3,548,791	7,834	438,690	-	(3,102,267)	
Plant services	5,707,040	10,139	169,925	-	(5,526,976)	
Ancillary services	189,936	-	2,852	-	(187,084)	
Community services	523,253	-	516,106	-	(7,147)	
Interest on long-term obligations	2,119,079	-	-	-	(2,119,079)	
Other outgo	72,869	-	204,615	-	131,746	
Total Governmental Activities	\$ 56,620,890	\$ 223,702	\$ 10,637,913	\$ 2	(45,759,273)	
General revenues and subventions:						
					7,617,455	
					3,003,999	
					618,713	
					36,554,215	
					36,310	
					1,006,102	
					48,836,794	
					3,077,521	
					4,969,259	
					\$ 8,046,780	

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

BANNING UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2016

	General Fund	Cafeteria Fund
ASSETS		
Deposits and investments	\$ 10,129,868	\$ 1,466,308
Receivables	2,360,159	671,618
Due from other funds	138,847	5,687
Stores inventories	6,460	16,742
Total Assets	\$ 12,635,334	\$ 2,160,355
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable	\$ 2,922,252	\$ 50,169
Due to other funds	34,963	126,171
Unearned revenue	247,638	-
Total Liabilities	3,204,853	176,340
Fund Balances:		
Nonspendable	16,460	16,742
Restricted	1,741,130	1,967,273
Assigned	4,472,680	-
Unassigned	3,200,211	-
Total Fund Balances	9,430,481	1,984,015
Total Liabilities and Fund Balances	\$ 12,635,334	\$ 2,160,355

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

Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ 2,457,667	\$ 442,144	\$ 14,495,987
-	389,433	3,421,210
-	29,276	173,810
-	-	23,202
<u>\$ 2,457,667</u>	<u>\$ 860,853</u>	<u>\$ 18,114,209</u>
\$ -	\$ 58,379	\$ 3,030,800
-	12,676	173,810
-	-	247,638
<u>-</u>	<u>71,055</u>	<u>3,452,248</u>
-	-	33,202
2,457,667	789,798	6,955,868
-	-	4,472,680
-	-	3,200,211
<u>2,457,667</u>	<u>789,798</u>	<u>14,661,961</u>
<u>\$ 2,457,667</u>	<u>\$ 860,853</u>	<u>\$ 18,114,209</u>

BANNING UNIFIED SCHOOL DISTRICT

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

Total Fund Balance - Governmental Funds	\$ 14,661,961
Amounts Reported for Governmental Activities in the Statement of Net Position is 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	\$ 107,189,552
Accumulated depreciation is	<u>(28,495,672)</u>
Net Capital Assets	78,693,880
Deferred charges relating to issuance of debt of next fiscal year were recognized on modified accrual basis, but are not recognized on the accrual basis.	3,031,632
Expenditures relating to contributions made to pension plans were recognized on the modified accrual basis, but are not recognized on the accrual basis.	2,986,154
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.	(268,645)
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.	(382,454)
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.	(2,280,946)
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.	34,802
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.	(481,024)
Net pension liability is not due and payable in the current period, and is not reported as a liability in the funds.	(32,521,812)
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	41,744,103
Unamortized premium on issuance	8,433,031
Capital leases	208,405
Accumulated vacation	652,513
Net OPEB obligation	2,221,717
In addition, the District previously issued "capital appreciation" general obligation bonds. The cumulative capital accretion on the general obligation bonds is:	<u>2,166,999</u>
Total Long-Term Obligations	(55,426,768)
Total Net Position - Governmental Activities	\$ <u>8,046,780</u>

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

BANNING UNIFIED SCHOOL DISTRICT

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

	General Fund	Cafeteria Fund
REVENUES		
Local Control Funding Formula	\$ 40,572,817	\$ -
Federal sources	3,572,136	2,571,145
Other State sources	5,487,172	191,045
Other local sources	3,597,758	183,487
Total Revenues	53,229,883	2,945,677
EXPENDITURES		
Current		
Instruction	29,860,258	-
Instruction-related activities:		
Supervision of instruction	635,686	-
Instructional library, media, and technology	390,608	-
School site administration	2,571,557	-
Pupil services:		
Home-to-school transportation	1,707,572	-
Food services	-	2,859,026
All other pupil services	3,216,498	-
Administration:		
Data processing	726,746	-
All other administration	3,320,299	126,063
Plant services	5,785,652	183,494
Facility acquisition and construction	1,127,622	-
Ancillary services	189,905	-
Community services	523,253	-
Other outgo	72,869	-
Debt Service		
Principal	40,053	-
Interest and other	6,930	-
Total Expenditures	50,175,508	3,168,583
Excess (Deficiency) of Revenues Over Expenditures	3,054,375	(222,906)
Other Financing Sources (Uses)		
Other sources - proceeds from capital leases	143,284	
Other sources - proceeds from sale of bonds	-	-
Other uses	-	-
Net Financing Sources (Uses)	143,284	-
NET CHANGE IN FUND BALANCES	3,197,659	(222,906)
Fund Balances - Beginning	6,232,822	2,206,921
Fund Balances - Ending	\$ 9,430,481	\$ 1,984,015

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

Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ -	\$ 26,578	\$ 40,599,395
-	-	6,143,281
44,074	133,412	5,855,703
2,965,633	472,036	7,218,914
<u>3,009,707</u>	<u>632,026</u>	<u>59,817,293</u>
-	144,956	30,005,214
-	-	635,686
-	11,614	402,222
-	48,700	2,620,257
-	-	1,707,572
-	-	2,859,026
-	-	3,216,498
-	-	726,746
-	2,648	3,449,010
-	(33,625)	5,935,521
-	136,334	1,263,956
-	-	189,905
-	-	523,253
-	-	72,869
604,946	28,686	673,685
5,684,730	7,626	5,699,286
<u>6,289,676</u>	<u>346,939</u>	<u>59,980,706</u>
<u>(3,279,969)</u>	<u>285,087</u>	<u>(163,413)</u>
		143,284
34,913,238	-	34,913,238
<u>(31,460,000)</u>	<u>-</u>	<u>(31,460,000)</u>
<u>3,453,238</u>	<u>-</u>	<u>3,596,522</u>
173,269	285,087	3,433,109
2,284,398	504,711	11,228,852
<u>\$ 2,457,667</u>	<u>\$ 789,798</u>	<u>\$ 14,661,961</u>

BANNING 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 **\$ 3,433,109**
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 outlay in the period.

Capital outlay	\$ 1,531,750	
Depreciation expense	(2,277,650)	
Net Expense Adjustment		(745,900)

In the Statement of Activities, certain operating expenses, such as accumulated vacation 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 \$35,583.

(35,583)

Proceeds received from issuance of debt is a revenue in the governmental funds, but it increases long-term obligations in the Statement of Net Position and does not affect the Statement of Activities:

Sale of general obligation refunding bonds	(29,400,000)
Capital leases	(143,284)

Governmental funds report the effect of premiums, discounts, and issuance costs when the debt is first issued, whereas the amounts are deferred and amortized over the life of the debt in the Statement of Activities. This amount is the net effect of these related items:

Premium on issuance for general obligation refunding bonds	(5,513,238)	
Deferred amount on refunding	3,031,632	
Combined adjustment		(2,481,606)

In the Statement of Activities, Net OPEB Postemployment Benefit Obligations (OPEB) are measured by an actuarially determined Annual Required Contribution (ARC). In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, amounts contributed toward the Net OPEB obligation were more than the net annual OPEB costs by \$416,553.

(416,553)

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

BANNING 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

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.	\$ 185,078
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	32,260,000
Capital leases	68,739
Under the modified basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the Statement of Activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. This adjustment combines the net changes of the following balances:	
Amortization of debt premium	203,737
Interest on long-term obligations in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the Statement of Activities is the result of two factors. First, accrued interest on the general obligation bonds, decreased by \$581,090, and second, \$431,306 of additional accumulated interest was accreted on the District's "capital appreciation" general obligation bonds.	
Change in Net Position of Governmental Activities	<u>149,784</u> <u>\$ 3,077,521</u>

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

BANNING UNIFIED SCHOOL DISTRICT

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

	Trust Fund	Agency Funds		Total Fiduciary Funds
	Scholarship Trust	Warrant Pass-Through Fund	Associated Student Body Fund	
ASSETS				
Deposits and investments	\$ 104,604	\$ 5,083	\$ 88,745	\$ 198,432
Receivables	179	-	-	179
Total Assets	104,783	\$ 5,083	\$ 88,745	198,611
LIABILITIES				
Due to student groups	-	-	88,745	88,745
Due to other agencies	-	5,083	-	5,083
Total Liabilities	-	\$ 5,083	\$ 88,745	93,828
NET ASSETS				
Reserved for scholarships	\$ 104,783			\$ 104,783

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

BANNING UNIFIED SCHOOL DISTRICT

**FIDUCIARY FUNDS
STATEMENT OF CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016**

	Scholarship Trust
ADDITIONS	
Private donations	\$ 1,000
Interest	590
Total Additions	<u>1,590</u>
DEDUCTIONS	
Other expenditures	<u>15,000</u>
Change in Net Assets	(13,410)
Net Position - Beginning	<u>118,193</u>
Net Position - Ending	<u><u>\$ 104,783</u></u>

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

BANNING UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Banning Unified School District (the District) was established as a unified school district in 1877 under the laws of the State of California. The District operates under a locally elected five member Board form of government and provides educational services to grades K through 12 as mandated by the State and/or Federal agencies. The District operates five elementary schools, one middle school, one high school, one continuation education school, one adult education program, and an independent study program.

A reporting entity is comprised of the primary government that is 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 Banning 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. The District has no component units.

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 two broad fund categories: governmental and fiduciary.

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

Major Governmental Funds

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

BANNING UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Two funds currently defined, as special revenue funds in the California State Accounting Manual (CSAM), do not meet the GASB Statement No. 54 special revenue fund definition. Specifically, Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects, and Fund 20, Special Reserve Fund for Postemployment Benefits, are not substantially composed of restricted or committed revenue sources. While these funds are authorized by statute and will remain open for internal reporting purposes, these funds function effectively as an extension of the General Fund and, accordingly, have been combined with the General Fund for presentation in these audited financial statements.

As a result, the General Fund reflects an increase in assets, fund balance, and revenues of \$1,116,994, \$1,116,994, and \$1,994, and a decrease in expenditures of \$1,115,000, respectively.

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).

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).

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.

Child Development Fund The Child Development Fund is used to account separately for Federal, State, and local revenues to operate child development programs and is to be used only for expenditures for the operation of child development programs.

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

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

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

BANNING UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

County School Facilities Fund The County School Facilities Fund is established pursuant to *Education Code* Section 17070.43 to receive apportionments from the 1998 State School Facilities Fund (Proposition 1A), the 2002 State School Facilities Fund (Proposition 47), or the 2004 State School Facilities Fund (Proposition 55), or the 2006 State Schools Facilities Fund (Proposition ID) authorized by the State Allocation Board for new school facility construction, modernization projects, and facility hardship grants, as provided in the Leroy F. Greene School Facilities Act of 1998 (*Education Code* Section 17070 et seq.).

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's trust fund accounts for scholarship activities. 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 (ASB) and warrant pass-through activities.

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 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 program, and excludes fiduciary activity. Direct expenses are those that are specifically associated with a service, program, or department and are therefore, clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the *Statement of Activities*, 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 position are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net position restricted for other activities result from special revenue funds and the restrictions on their use.

BANNING UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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.

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.

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 45 or 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.

BANNING UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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.

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 Riverside County Treasury investment 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 first-in, first-out basis. The costs of inventory items are recorded as expenditures in the governmental funds.

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.

Depreciation is computed using the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 20 to 50 years; improvements/infrastructure, 5 to 50 years; equipment, 2 to 15 years.

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental and business-type activities columns of the Statement of Net Position, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

BANNING 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 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, as well as issuance costs related to prepaid insurance costs, are amortized over the life of the bonds using the straight-line method.

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

BANNING 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 deferred charges on refunding of debt 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 (the Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalSTRS and CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Member contributions are recognized in the period in which they are earned. Investments are reported at fair value.

Fund Balances - Governmental Funds

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

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

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

Committed - amounts that can be used only for specific purposes determined by a formal action of the governing board. The governing board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through resolutions or other action as approved by the governing board. The District currently does not have any committed funds.

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.

BANNING UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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.

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 three percent of General Fund expenditures and other financing uses. The policy intends for the District to maintain a minimum unassigned fund balance which includes a reserve for economic uncertainties equal to 4.5 percent of General Fund expenditures and other financing uses.

If the unassigned fund balance falls below this level due to an emergency situation, unexpected expenditures, or revenue shortfalls, the Board shall develop a plan to recover the fund balance which may include dedicating new unrestricted revenues, reducing expenditures, and/or increasing revenues or pursuing other funding sources.

Net Position

Net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt 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 \$6,583,366 of restricted net position.

Estimates

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

Budgetary Data

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

BANNING UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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 Riverside 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 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of State and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment to GASB Statement No. 27*, 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 GASB Statement No. 68. It also amends certain provisions of GASB Statement No. 67, *Financial Reporting for Pension Plans—an amendment to GASB Statement No. 25*, and GASB 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 GASB 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 GASB Statement No. 68 are effective for periods beginning after June 15, 2016.

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NOTES TO FINANCIAL STATEMENTS

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

This Statement supersedes GASB 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 GASB 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 GASB Statement No. 31, as amended.

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

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

BANNING UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS 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.

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

BANNING UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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 GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment to GASB Statement No. 27*. 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 GASB 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 GASB 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—an amendment to 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 GASB Statement No. 14, *The Financial Reporting Entity*. 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 GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units—an amendment to GASB Statement No. 14*.

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

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

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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 GASB Statement No. 67, *Financial Reporting for Pension Plans—an amendment to GASB Statement No. 25*, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment to GASB Statement No. 27*, and GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. 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.

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	\$ 14,495,987
Fiduciary funds	198,432
Total Deposits and Investments	<u>\$ 14,694,419</u>

BANNING UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

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

Cash on hand and in banks	\$ 97,738
Cash in revolving	10,000
Investments	<u>14,586,681</u>
Total Deposits and Investments	<u><u>\$ 14,694,419</u></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.

BANNING 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:

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

Authorized Under Debt Agreements

Investments of debt proceeds held by bond trustees are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code. These provisions allow for the acquisition of investment agreements with maturities of up to 30 years.

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.

BANNING UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Specific Identification

The District monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. Information about the weighted average maturity of the District's portfolio is presented in the following schedule:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Days to Maturity</u>
Riverside County Investment Pool	<u>\$ 14,608,561</u>	420

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 investments with the Riverside County Investment Pool have been rated AAA/V1 by Fitch Ratings.

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2016, the District had no balances exposed to custodial credit risk. All balances were fully insured.

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.

BANNING UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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

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

Uncategorized - Investments in the Riverside 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.

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Uncategorized</u>
Riverside County Investment Pool	<u>\$ 14,608,561</u>	<u>\$ 14,608,561</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.

	<u>General Fund</u>	<u>Cafeteria Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Activities</u>	<u>Fiduciary Fund</u>
Federal Government					
Categorical aid	\$ 381,268	\$ 620,570	\$ -	\$ 1,001,838	\$ -
State Government					
Categorical aid	115,728	46,164	28,621	190,513	-
Lottery	494,384	-	-	494,384	-
SELPA Master Plan	587,875	-	-	587,875	-
Local Government					
Interest	12,452	3,034	812	16,298	179
Other Local Sources	768,452	1,850	360,000	1,130,302	-
Total	<u>\$ 2,360,159</u>	<u>\$ 671,618</u>	<u>\$ 389,433</u>	<u>\$ 3,421,210</u>	<u>\$ 179</u>

BANNING 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	\$ 1,799,596	\$ 50,801	\$ -	\$ 1,850,397
Construction in process	2,960,006	316,831	-	3,276,837
Total Capital Assets Not Being Depreciated	4,759,602	367,632	-	5,127,234
Capital Assets Being Depreciated				
Improvement of sites	3,053,972	106,589		3,160,561
Buildings	92,052,198	334,246	-	92,386,444
Equipment	5,878,930	723,283	86,900	6,515,313
Total Capital Assets Being Depreciated	100,985,100	1,164,118	86,900	102,062,318
Less Accumulated Depreciation				
Improvement of sites	2,859,815	28,662		2,888,477
Buildings	18,971,057	1,843,823		20,814,880
Equipment	4,474,050	405,165	86,900	4,792,315
Total Accumulated Depreciation	26,304,922	2,277,650	86,900	28,495,672
Governmental Activities Capital Assets, Net	<u>\$ 79,439,780</u>	<u>\$ (745,900)</u>	<u>\$ -</u>	<u>\$ 78,693,880</u>

Depreciation expense was charged as a direct expense to governmental functions as follows:

Governmental Activities	
Instruction	\$ 2,166,403
Supervision of instruction	6,621
Home-to-school transportation	7,919
Food services	12,717
Data processing	10,236
All other administration	55,246
Plant services	18,508
Total Depreciation Expenses All Activities	<u>\$ 2,277,650</u>

BANNING UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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 funds are as follows:

Due To	Due From			Total
	General Fund	Cafeteria Fund	Non-Major Governmental Funds	
General Fund	\$ -	\$ 126,171	\$ 12,676	\$ 138,847
Cafeteria Fund	5,687	-	-	5,687
Non-Major Governmental Funds	29,276	-	-	29,276
Total	\$ 34,963	\$ 126,171	\$ 12,676	\$ 173,810

A balance of \$126,063 is due to the General Fund from the Cafeteria Fund for indirect costs.

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

NOTE 7 - ACCOUNTS PAYABLE

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

	General Fund	Cafeteria Fund	Non-Major Governmental Funds	Total Governmental Activities
Vendor payables	\$ 2,099,743	\$ 39,901	\$ 26,382	\$ 2,166,026
LCFF apportionment	432,297	-	-	432,297
Salaries and benefits	187,067	10,268	-	197,335
Construction	203,145	-	31,997	235,142
Total	\$ 2,922,252	\$ 50,169	\$ 58,379	\$ 3,030,800

BANNING UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

NOTE 8 - UNEARNED REVENUE

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

	General Fund
Federal financial assistance	\$ 101,409
State categorical aid	146,229
Total	<u>\$ 247,638</u>

NOTE 9 - LONG-TERM OBLIGATIONS

Summary

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

	Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016	Due in One Year
General obligation bonds	\$ 46,339,796	\$ 29,831,306	\$ 32,260,000	\$ 43,911,102	\$ 1,705,000
Premium on issuance	3,123,530	5,513,238	203,737	8,433,031	-
Capital leases	133,860	143,284	68,739	208,405	73,213
Accumulated vacation	616,930	35,583	-	652,513	-
Net OPEB obligation	1,805,164	809,922	393,369	2,221,717	-
	<u>\$ 52,019,280</u>	<u>\$ 36,333,333</u>	<u>\$ 32,925,845</u>	<u>\$ 55,426,768</u>	<u>\$ 1,778,213</u>

General Obligation Bonds are paid from the Bond Interest and Redemption Fund from tax revenues collected from the property owners within the boundaries of the District. Capital leases payments come from the unrestricted resources of the General Fund and the Capital Facilities Fund. The Accumulated Vacation liability and Net OPEB obligation are liquidated in the fund which the employee who earned the benefit is paid from.

BANNING UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds		Capital		Bonds Outstanding June 30, 2016
				Outstanding July 1, 2015	Issued	Appreciation	Redeemed	
3/13/03	8/1/17	2.00%-4.25%	\$ 7,999,674	\$ 869,141	\$ -	\$ 58,536	\$ 300,000	\$ 627,677
6/4/04	8/1/25	3.00%-5.00%	4,000,037	511,608	-	55,242	-	566,850
2/8/07	8/1/31	4.00%-5.00%	13,500,000	11,725,000	-	-	11,300,000	425,000
7/9/08	8/1/33	3.50%-5.25%	23,999,288	25,209,047	-	317,528	20,510,000	5,016,575
7/31/14	8/1/27	2.00%-5.00%	8,025,000	8,025,000	-	-	150,000	7,875,000
6/30/16	8/1/33	2.00%-5.00%	29,400,000	-	29,400,000	-	-	29,400,000
				<u>\$ 46,339,796</u>	<u>\$ 29,400,000</u>	<u>\$ 431,306</u>	<u>\$ 32,260,000</u>	<u>\$ 43,911,102</u>

2002 Election, Series A and Series B

Bonds were authorized at an election of the registered voters of the District held on November 5, 2002, at which more than 55 percent of the voters authorized the issuance and sale of \$12 million Measure L General Obligation bonds. The bonds are general obligations of the District. The County is obligated to levy ad valorem taxes upon all property within the District for the payment of interest and principal of the bonds. In March 2003, the District issued current interest and capital appreciation bonds, 2002 Series A, General Obligation Bonds, in the amount of \$7,999,674. The bonds were issued to finance the acquisition, construction, and modernization of property and school facilities. In June 2004, the District issued current interest and capital appreciation bonds, 2002 Series A, General Obligation Bonds, in the amount of \$4,000,037. The bonds were issued to finance the acquisition, construction, and modernization of property and school facilities.

2006 Election, Series A and Series B

Bonds were authorized at an election of the registered voters of the District held on November 7, 2006, at which more than 55 percent of the voters authorized the issuance and sale of \$63 million Measure R General Obligation bonds. The bonds are general obligations of the District. The County is obligated to levy ad valorem taxes upon all property within the District for the payment of interest and principal of the bonds. In February 2007, the District issued current interest bonds, 2006 Series A, General Obligation Bonds, in the amount of \$13,500,000. The bonds were issued to finance the acquisition, construction, and modernization of property and school facilities. In July 2008, the District issued current interest and capital appreciation bonds, 2006 Series A, General Obligation Bonds, in the amount of \$23,999,288. The bonds were issued to finance the acquisition, construction, and modernization of property and school facilities.

2014 General Obligation Refunding Bonds

In July 2014, the District issued \$8,025,000 of the 2014 General Obligation Refunding Bonds. The bonds mature on August 1, 2027, with interest yields ranging from 2.00 to 5.00 percent. The proceeds from the sale of the bonds were used to refund a portion of the outstanding 2002 General Obligation Bonds, Series A, and B.

BANNING UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

2016 General Obligation Refunding Bonds

In June 2016, the District issued \$29,400,000 of the 2016 General Obligation Refunding Bonds. The bonds mature on August 1, 2033, with interest yields ranging from 2.00 to 5.00 percent. The proceeds from the sale of the bonds were used to refund a portion of the outstanding 2006 General Obligation Bonds, Series A, and B. The refunding resulted in a cumulative cash flow saving of \$7,271,483 over the life of the new debt and an economic gain of \$5,703,259 based on the difference between the present value of the existing debt service requirements and the new debt service requirements discounted at 2.35 percent.

Debt Service Requirements to Maturity

The bonds mature through 2034 as follows:

Fiscal Year	Principal (Including Accreted Interest to Date)	Interest to Maturity	Accreted Interest	Total
2017	\$ 1,695,679	\$ 1,181,576	\$ 1,220,000	\$ 4,097,255
2018	1,241,998	1,718,190	760,000	\$ 3,720,188
2019	1,400,000	2,162,951	855,000	4,417,951
2020	1,469,312	1,579,763	1,045,000	4,094,075
2021	1,580,774	1,542,413	1,170,000	4,293,187
2022-2026	10,016,489	6,795,563	8,425,000	25,237,052
2027-2031	15,506,850	5,488,044	13,961,850	34,956,744
2032-2034	11,000,000	660,400	11,000,000	22,660,400
Total	<u>\$ 43,911,102</u>	<u>\$ 21,128,900</u>	<u>\$ 38,436,850</u>	<u>\$ 103,476,852</u>

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2016, amounted to \$652,513.

Net Other Postemployment Benefits (OPEB) Obligation

The District's annual required contribution for the year ended June 30, 2016, was \$724,177, and contributions made by the District during the year were \$325,065. Interest on the net OPEB obligation and adjustments to the annual required contribution were \$85,745 and \$(68,304), respectively, which resulted in an increase to the net OPEB obligation of \$416,553. As of June 30, 2016, the net OPEB obligation was \$2,221,717. See Note 12 for additional information regarding the net OPEB obligation and the postemployment benefits plan.

BANNING UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

Capital Leases

The District has entered into agreements to lease various facilities and equipment. Such agreements are, in substance, purchases (capital leases) and are reported as capital lease obligations. The District's liability on lease agreements with options to purchase is summarized below:

	School Buses	Relocatables	Total
Balance, July 1, 2015	\$ 46,308	\$ 105,912	\$ 152,220
Additions	157,731	-	157,731
Payments	46,983	36,312	83,295
Balance, June 30, 2016	<u>\$ 157,056</u>	<u>\$ 69,600</u>	<u>\$ 226,656</u>

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2017	\$ 83,294
2018	80,270
2019	31,546
2020	31,546
Total	<u>226,656</u>
Less: Amount Representing Interest	18,251
Present Value of Minimum Lease Payments	<u>\$ 208,405</u>

Leased equipment under capital leases in capital assets at June 30, 2016, includes the following:

Equipment	\$ 560,546
Less: Accumulated depreciation	<u>(209,801)</u>
Total	<u>\$ 350,745</u>

Amortization of leased buildings and equipment under capital assets is included with depreciation expense.

BANNING UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE 10 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Cafeteria Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total
Nonspendable					
Revolving cash	\$ 10,000	\$ -	\$ -	\$ -	\$ 10,000
Stores inventories	6,460	16,742	-	-	23,202
Total Nonspendable	<u>16,460</u>	<u>16,742</u>	<u>-</u>	<u>-</u>	<u>33,202</u>
Restricted					
Legally restricted programs	1,741,130	1,967,273	-	15,167	3,723,570
Capital projects	-	-	-	774,631	774,631
Debt services	-	-	2,457,667	-	2,457,667
Total Restricted	<u>1,741,130</u>	<u>1,967,273</u>	<u>2,457,667</u>	<u>789,798</u>	<u>6,955,868</u>
Assigned					
Worker's compensation safety credits	2,472	-	-	-	2,472
Mandated cost reimbursements	713,449	-	-	-	713,449
Special projects direct transfer	6,660	-	-	-	6,660
MAA reimbursements	176,793	-	-	-	176,793
Donations	11,404	-	-	-	11,404
Supplemental and concentration	2,444,907	-	-	-	2,444,907
Future employee fixed costs increase	616,904	-	-	-	616,904
OPEB actuarial obligation	500,091	-	-	-	500,091
Total Assigned	<u>4,472,680</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,472,680</u>
Unassigned					
Reserve for economic uncertainties	2,251,451	-	-	-	2,251,451
Remaining unassigned	948,760	-	-	-	948,760
Total Unassigned	<u>3,200,211</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,200,211</u>
Total	<u>\$ 9,430,481</u>	<u>\$ 1,984,015</u>	<u>\$ 2,457,667</u>	<u>\$ 789,798</u>	<u>\$ 14,661,961</u>

BANNING UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE 11 - EXPENDITURES (BUDGET VERSUS ACTUAL)

At June 30, 2016, the District's General Fund and Cafeteria Fund exceeded the budgeted amount in total as follows:

Funds	Expenditures and Other Uses		
	Budget	Actual	Excess
General Fund	\$ 49,685,744	\$ 50,175,508	\$ 489,764
Cafeteria Fund	\$ 2,728,666	\$ 3,168,583	\$ 439,917

NOTE 12 - POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION

Plan Description

The Postemployment Benefits Plan (the Plan) is a single-employer defined benefit health care plan administered by the Banning Unified School District. The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Membership of the Plan consists of 37 retirees and beneficiaries currently receiving benefits and 505 active plan members as of the most recent actuarial study.

Contribution Information

The contribution requirements of plan members and the District are established and may be amended by the District and the Teachers Association (CEA), the local California Service Employees Association (CSEA), and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2015-2016, the District contributed \$325,065 to the Plan, all of which was used for current premiums.

BANNING UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL) (or funding excess) over a period not to exceed 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	\$ 724,177
Interest on net OPEB obligation	85,745
Adjustment to annual required contribution	(68,304)
Annual OPEB cost (expense)	<u>741,618</u>
Contributions made	<u>(325,065)</u>
Decrease in net OPEB obligation	416,553
Net OPEB obligation, beginning of year	<u>1,805,164</u>
Net OPEB obligation, end of year	<u><u>\$ 2,221,717</u></u>

Trend Information

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

Year Ended June 30,	Annual OPEB Cost	Actual Employer Contribution	Percentage Contributed	Net OPEB Obligation
2014	\$ 740,757	\$ 743,568	100%	\$ 1,713,191
2015	740,730	648,757	88%	1,805,164
2016	741,618	325,065	44%	2,221,717

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) - Entry Age Normal (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
April 1, 2014	\$ -	\$ 5,191,319	\$ 5,191,319	0%	\$ 25,017,192	21%

BANNING UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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 health care 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 April 1, 2014, actuarial valuation, the entry age normal method was used. The actuarial assumptions included a 4.75 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. Health care cost trend rates were estimated at an ultimate rate of four percent. The UAAL is being amortized using the level percentage payroll method. The remaining amortization period at June 30, 2016, was 23 years. The actuarial value of assets was not determined in this actuarial valuation.

NOTE 13 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft, damage and destruction of assets; errors and omissions; injuries to employees; life and health of employees; and natural disasters.

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 with Riverside Schools' Insurance Authority (RSIA) 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 Protected Insurance Program for Schools (PIPS). The intent of the PIPS is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the PIPS. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate. Each participant pays its workers' compensation premium based on its individual rate.

BANNING UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Employee Medical Benefits

The District has contracted with the Riverside County Employer/Employee Partnership (REEP) to provide employee health benefits.

NOTE 14 - 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 CalSTRS and classified employees are members of 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:

<u>Pension Plan</u>	<u>Collective Net Pension Liability</u>	<u>Collective Deferred Outflows of Resources</u>	<u>Collective Deferred Inflows of Resources</u>	<u>Collective Pension Expense</u>
CalSTRS	\$ 24,692,997	\$ 4,040,665	\$ 4,916,421	\$ 1,732,494
CalPERS	7,828,815	2,942,537	2,190,249	719,534
Total	<u>\$ 32,521,812</u>	<u>\$ 6,983,202</u>	<u>\$ 7,106,670</u>	<u>\$ 2,452,028</u>

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

The District contributes to the State Teachers' Retirement Plan (STRP) administered by 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>.

BANNING UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Benefits Provided

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

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

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

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

	STRP Defined Benefit Program	
	On or before December 31, 2012	On or after January 1, 2013
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 contribution rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contribution 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 \$2,095,088.

BANNING UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

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	\$ 24,692,997
State's proportionate share of the net pension liability associated with the District	<u>13,059,873</u>
Total	<u><u>\$ 37,752,870</u></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 college districts and the State, actuarially determined. The District's proportionate share for the measurement periods of June 30, 2015 and June 30, 2014, was 0.0367 percent and 0.0376 percent, respectively, resulting in a net decrease in the proportionate share of 0.0009 percent.

For the year ended June 30, 2016, the District recognized pension expense of \$1,723,494. In addition, the District recognized pension expense and revenue of \$1,011,634 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	\$ 2,095,088	\$ -
Net change in proportionate share of net pension liability	-	545,338
Differences between projected and actual earnings on pension plan investments	1,945,577	3,958,457
Differences between expected and actual experience in the measurement of the total pension liability	-	412,626
Total	<u><u>\$ 4,040,665</u></u>	<u><u>\$ 4,916,421</u></u>

BANNING UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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

The deferred outflows/(inflows) of resources related to the difference between projected and actual earning 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	\$ (833,092)
2018	(833,092)
2019	(833,092)
2020	486,396
Total	<u>\$ (2,012,880)</u>

The deferred 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 seven years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2017	\$ (159,661)
2018	(159,661)
2019	(159,661)
2020	(159,661)
2021	(159,661)
Thereafter	(159,659)
Total	<u>\$ (957,964)</u>

BANNING UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

Actuarial Methods and Assumptions

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

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

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

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

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

BANNING UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

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:

<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% decrease (6.60%)	\$ 37,284,504
Current discount rate (7.60%)	24,692,997
1% increase (8.60%)	14,228,439

California Public Employees' Retirement System (CalPERS)

Plan Description

Qualified employees are eligible to participate in the School Employer Pool (SEP) under 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>.

BANNING UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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 age 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	December 31, 2012	January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.000%	6.000%
Required employer contribution rate	11.847%	11.847%

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 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 contribution rates are expressed as a 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 \$891,066.

BANNING UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

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 \$7,828,815. 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 periods of June 30, 2015 and June 30, 2014, was 0.0531 percent and 0.0503 percent, respectively, resulting in a net increase in the proportionate share of 0.0028 percent.

For the year ended June 30, 2016, the District recognized pension expense of \$719,534. 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	\$ 891,066	\$ -
Net change in proportionate share of net pension liability	318,244	155,360
Difference between projected and actual earnings on pension plan investments	1,285,799	1,553,865
Differences between expected and actual experience in the measurement of the total pension liability	447,428	-
Changes of assumptions	-	481,024
Total	<u>\$ 2,942,537</u>	<u>\$ 2,190,249</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	\$ (196,505)
2018	(196,505)
2019	(196,505)
2020	321,449
Total	<u>\$ (268,066)</u>

BANNING UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

The deferred outflows 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 EARSL of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the 2014-2015 measurement period is 3.9 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2017	\$ 20,474
2018	20,474
2019	88,340
Total	<u>\$ 129,288</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, 2014, and rolling forward the total pension liability to June 30, 2015. The financial reporting actuarial valuation as of June 30, 2014, used the following methods and assumptions, applied to all prior periods included in the measurement:

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

BANNING UNIFIED SCHOOL DISTRICT

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:

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

Discount Rate

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

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

<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% decrease (6.65%)	\$ 12,742,048
Current discount rate (7.65%)	7,828,815
1% increase (8.65%)	3,743,133

BANNING 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 \$1,130,516 (7.12589 percent of annual payroll). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves, and have not been included in the budgeted amounts reported in the *General Fund - Budgetary Comparison Schedule*.

NOTE 15 - 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.

NOTE 16 - PARTICIPATION IN JOINT POWERS AUTHORITIES

The District is a member of the Riverside Schools Insurance Authority (RSIA), the Riverside County Employer/Employee Partnership (REEP) for benefits, and the Riverside Schools Risk Management Authority (RSRMA) joint powers authorities (JPA). The District pays an annual premium to the applicable entity for its health, workers' compensation, and property liability coverage. The relationships between the District and the JPAs are such that they are not component units of the District for financial reporting purposes.

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

The District has appointed one board member to the governing board of Riverside Schools' Insurance Authority.

BANNING UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

During the year ended June 30, 2016, the District made payments of \$262,546 to Riverside Schools' Insurance Authority, \$4,157,919 to Riverside County Employer/Employee Partnership, and \$828,893 to Protected Insurance Program for Schools for insurance.

REQUIRED SUPPLEMENTARY INFORMATION

BANNING UNIFIED SCHOOL DISTRICT

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

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative)
	Original	Final		Final to Actual
	REVENUES			
Local Control Funding Formula	\$40,390,495	\$40,454,571	\$ 40,572,817	\$ 118,246
Federal sources	3,027,489	4,029,012	3,572,136	(456,876)
Other State sources	4,286,438	4,300,239	5,487,172	1,186,933
Other local sources	2,505,132	2,735,441	3,597,758	862,317
Total Revenues ¹	<u>50,209,554</u>	<u>51,519,263</u>	<u>53,229,883</u>	<u>1,710,620</u>
EXPENDITURES				
Current				
Certificated salaries	20,929,663	19,929,731	20,000,217	(70,486)
Classified salaries	7,023,069	6,760,250	7,034,604	(274,354)
Employee benefits	9,857,994	9,007,010	9,877,044	(870,034)
Books and supplies	2,735,055	4,748,394	4,372,680	375,714
Services and operating expenditures	6,217,991	8,087,397	7,364,003	723,394
Capital outlay	680,000	1,139,026	1,392,534	(253,508)
Other outgo	(8,125)	(33,048)	87,443	(120,491)
Debt service - principal	31,547	46,984	40,053	6,931
Debt service - interest	-	-	6,930	(6,930)
Total Expenditures ¹	<u>47,467,194</u>	<u>49,685,744</u>	<u>50,175,508</u>	<u>(489,764)</u>
Excess (Deficiency) of Revenues				
Over Expenditures	<u>2,742,360</u>	<u>1,833,519</u>	<u>3,054,375</u>	<u>1,220,856</u>
Other Financing Sources				
Other sources - proceeds from capital leases	-	-	143,284	143,284
Net Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>143,284</u>	<u>143,284</u>
NET CHANGE IN FUND BALANCES	<u>2,742,360</u>	<u>1,833,519</u>	<u>3,197,659</u>	<u>1,364,140</u>
Fund Balances - Beginning	<u>6,232,822</u>	<u>6,232,822</u>	<u>6,232,822</u>	<u>-</u>
Fund Balances - Ending	<u>\$ 8,975,182</u>	<u>\$ 8,066,341</u>	<u>\$ 9,430,481</u>	<u>\$ 1,364,140</u>

¹ On behalf payments of \$1,130,516 are included in the actual State revenues and Benefits expenditures, but have not been included in the budgeted amounts. In addition, two funds currently defined, as special revenue funds in the California State Accounting Manual (CSAM) do not meet the GASB Statement No. 54 special revenue fund definition. Specifically, Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects, and Fund 20, Special Reserve Fund for Postemployment Benefits, are not substantially composed of restricted or committed revenue sources, additional revenues and expenditures pertaining to these other funds are included in the Actual (GAAP Basis) revenues and expenditures, however, are not included in the original and final General Fund budgets.

See accompanying note to required supplementary information.

BANNING UNIFIED SCHOOL DISTRICT

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

	Budgeted Amounts		Actual (GAAP Basis)	Variances -
	Original	Final		Positive (Negative) Final to Actual
REVENUES				
Federal sources	\$ 2,025,000	\$ 2,027,560	\$ 2,571,145	\$ 543,585
Other State sources	173,400	173,400	191,045	17,645
Other local sources	153,800	155,033	183,487	28,454
Total Revenues	2,352,200	2,355,993	2,945,677	589,684
EXPENDITURES				
Current				
Classified salaries	993,205	1,010,403	1,026,324	(15,921)
Employee benefits	472,739	425,218	401,574	23,644
Books and supplies	1,003,220	1,074,967	1,532,747	(457,780)
Services and operating expenditures	62,575	81,401	63,814	17,587
Other outgo	15,000	22,629	126,064	(103,435)
Capital outlay	114,325	114,048	18,060	95,988
Total Expenditures	2,661,064	2,728,666	3,168,583	(439,917)
NET CHANGE IN FUND BALANCES	(308,864)	(372,673)	(222,906)	149,767
Fund Balance - Beginning	2,206,921	2,206,921	2,206,921	-
Fund Balance - Ending	\$ 1,898,057	\$ 1,834,248	\$ 1,984,015	\$ 149,767

See accompanying note to required supplementary information.

BANNING 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 Liability (AAL) - Entry Age Normal (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
September 1, 2009	\$ -	\$ 7,234,302	\$ 7,234,302	0%	\$ 21,700,200	33%
September 1, 2011	-	6,246,449	6,246,449	0%	22,987,244	27%
April 1, 2014	-	5,191,319	5,191,319	0%	25,017,192	21%

See accompanying note to required supplementary information.

BANNING UNIFIED SCHOOL DISTRICT

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

	<u>2016</u>	<u>2015</u>
CalSTRS		
District's proportion of the net pension liability	<u>0.0367%</u>	<u>0.0376%</u>
District's proportionate share of the net pension liability	\$ 24,692,997	\$ 21,943,950
State's proportionate share of the net pension liability associated with the District	<u>13,059,873</u>	<u>13,250,704</u>
Total	<u>\$ 37,752,870</u>	<u>\$ 35,194,654</u>
District's covered - employee payroll	<u>\$ 18,002,230</u>	<u>\$ 16,587,515</u>
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	<u>137.17%</u>	<u>132.29%</u>
Plan (CalSTRS) fiduciary net position as a percentage of the total pension liability	<u>74%</u>	<u>77%</u>
CalPERS		
District's proportion of the net pension liability	<u>0.0531%</u>	<u>0.0503%</u>
District's proportionate share of the net pension liability	<u>\$ 7,828,814</u>	<u>\$ 5,711,015</u>
District's covered - employee payroll	<u>\$ 7,009,379</u>	<u>\$ 5,341,033</u>
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	<u>111.69%</u>	<u>106.93%</u>
Plan (CalPERS) fiduciary net position as a percentage of the total pension liability	<u>79%</u>	<u>83%</u>

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

See accompanying note to required supplementary information.

BANNING UNIFIED SCHOOL DISTRICT

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

	<u>2016</u>	<u>2015</u>
CalSTRS		
Contractually required contribution	\$ 2,095,088	\$ 1,598,598
Contributions in relation to the contractually required contribution	<u>2,095,088</u>	<u>1,598,598</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered - employee payroll	<u>\$ 19,525,517</u>	<u>\$ 18,002,230</u>
Contributions as a percentage of covered - employee payroll	<u>10.73%</u>	<u>8.88%</u>
 CalPERS		
Contractually required contribution	\$ 891,066	\$ 825,074
Contributions in relation to the contractually required contribution	<u>891,066</u>	<u>825,074</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered - employee payroll	<u>\$ 7,521,448</u>	<u>\$ 7,009,379</u>
Contributions as a percentage of covered - employee payroll	<u>11.85%</u>	<u>11.77%</u>

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

See accompanying note to required supplementary information.

BANNING UNIFIED SCHOOL DISTRICT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2016

NOTE 1 - PURPOSE OF SCHEDULES

Budgetary Comparison Schedules

These schedules present information for the original and final budgets and actual results of operations, as well as the variances from the final budgets 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 positions 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.

Changes in Benefit Terms

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

Changes in Assumptions

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

SUPPLEMENTARY INFORMATION

BANNING UNIFIED SCHOOL DISTRICT

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

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education (CDE):			
Indian Education - Grants to Local Educational Agencies	84.060A	10011	\$ 69,569
Carl D. Perkins Vocational and Technical Education Act of 1998 Secondary Education	84.048	14894	46,789
No Child Left Behind Act (NCLB):			
Title I, Part A - Basic Grants Low Income and Neglected	84.010	14329	1,706,403
Title II, Part A - Improving Teacher Quality Local Grants	84.367	14341	501,037
Title II, Part A, Administrator Training	84.367	14344	2,925
Title III - Immigrant Education Program	84.365	15146	1,720
Title III - Limited English Proficient (LEP) Student Program	84.365	14346	92,185
Passed through Riverside County Special Education Local Plan Area:			
Individuals With Disabilities Act (IDEA)			
Special Education (IDEA) Cluster:			
Basic Local Assistance Entitlement, Part B, Section 611	84.027	13379	706,935
Preschool Grants, Part B, Section 619 (Age 3-4-5)	84.173	13430	10,193
Preschool Local Entitlement, Part B, Section 611 (Age 3-4-5)	84.027A	13682	24,756
Mental Health Services, Part B, Section 611	84.027A	14468	37,579
Preschool Staff Development, Part B, Section 619	84.173A	13431	110
Total Special Education (IDEA) Cluster			779,573
Total U.S. Department of Education			3,200,201

See accompanying note to supplementary information.

BANNING UNIFIED SCHOOL DISTRICT

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

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
Forest Reserve Funds	10.665	10044	\$ 33,184
Passed through CDE:			
Child Nutrition Cluster:			
Basic School Breakfast Program	10.553	13390	29,877
Especially Needy Breakfast	10.553	13526	502,362
National School Lunch Program	10.555	13523	1,679,192
Meal Supplement	10.555	13396	57,390
Summer Food Service Program	10.559	13004	92,363
Food Distribution	10.555	13524	<u>159,403</u>
Total Child Nutrition Cluster			<u>2,520,587</u>
CACFP Claims - Centers and Family Day Care	10.558	13393	<u>50,558</u>
Total U.S. Department of Agriculture			<u>2,604,329</u>
 U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through California Department of Health Services:			
Medicaid Cluster:			
Medi-Cal Billing Option	93.778	10013	135,953
Medical Administrative Activities Program	93.778	10060	<u>189,950</u>
Total Medicaid Cluster			<u>325,903</u>
Total U.S. Department of Health and Human Services			<u>325,903</u>
 Total Federal Programs			 <u><u>\$ 6,130,433</u></u>

See accompanying note to supplementary information.

BANNING UNIFIED SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2016

ORGANIZATION

The Banning Unified School District was established as a unified school District in 1877 and consists of an area comprising approximately 303 square miles. The District operates five elementary schools, one middle school, one high school, one continuation education school, one adult education program, and an independent study program. There were no boundary changes during the year.

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Alfredo Andrade	President	2019
Jan Spann	Clerk	2017
Alex Cassadas	Member	2019
Kerri Mariner	Member	2019
Martha Bederio	Member	2017

ADMINISTRATION

Robert Guillen	Superintendent
Felicia Adkins	Director of Educational Services
Barbara Wolford	Director of Student Services
Cathy Bagnara	Director of Business Services
Sandi Khodadadi	Coordinator of Human Resources
Christina Hoff	Supervisor of Fiscal Services

See accompanying note to supplementary information.

BANNING 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	1,452.79	1,459.46
Fourth through sixth	984.22	985.16
Seventh and eighth	578.88	578.18
Ninth through twelfth	1,212.39	1,198.94
Total Regular ADA	<u>4,228.28</u>	<u>4,221.74</u>
Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	0.43	0.73
Fourth through sixth	0.34	0.95
Seventh and eighth	2.30	3.90
Ninth through twelfth	3.00	5.96
Total Special Education, Nonpublic, Nonsectarian Schools	<u>6.07</u>	<u>11.54</u>
Extended Year Special Education, Nonpublic, Nonsectarian Schools		
Fourth through sixth	0.25	0.14
Ninth through twelfth	0.35	0.33
Total Extended Year Special Education, Nonpublic, Nonsectarian Schools	<u>0.60</u>	<u>0.47</u>
Total ADA	<u><u>4,234.95</u></u>	<u><u>4,233.75</u></u>

See accompanying note to supplementary information.

BANNING 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	52,960	180	N/A	Complied
Grades 1 - 3	50,400				
Grade 1		52,960	180	N/A	Complied
Grade 2		52,960	180	N/A	Complied
Grade 3		52,960	180	N/A	Complied
Grades 4 - 6	54,000				
Grade 4		54,120	180	N/A	Complied
Grade 5		54,120	180	N/A	Complied
Grade 6		57,678	180	N/A	Complied
Grades 7 - 8	54,000				
Grade 7		57,678	180	N/A	Complied
Grade 8		57,678	180	N/A	Complied
Grades 9 - 12	64,800				
Grade 9		65,195	180	N/A	Complied
Grade 10		65,195	180	N/A	Complied
Grade 11		65,195	180	N/A	Complied
Grade 12		65,195	180	N/A	Complied

See accompanying note to supplementary information.

BANNING UNIFIED SCHOOL DISTRICT

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

Summarized below is the fund balance reconciliation between the Unaudited Actual Financial Report and the audited financial statements.

	Capital Facilities Fund
FUND BALANCE	
Balance, June 30, 2016, Unaudited Actuals	\$ 325,415
Increase in:	
Accounts receivable	360,000
Decrease in:	
Accounts payable	37,500
Balance, June 30, 2016, Audited Financial Statements	<u>\$ 722,915</u>

See accompanying note to supplementary information.

BANNING UNIFIED SCHOOL DISTRICT

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

	(Budget) 2017 ¹	2016	2015	2014
GENERAL FUND⁴				
Revenues	\$ 52,554,170	\$ 53,227,889	\$ 45,118,244	\$ 39,388,785
Other sources	-	-	-	1,588
Total Revenues and Other Sources	52,554,170	53,227,889	45,118,244	39,390,373
Expenditures	53,000,332	50,175,508	42,765,332	38,794,660
Other uses and transfers out	-	1,115,000	-	-
Total Expenditures and Other Uses	53,000,332	51,290,508	42,765,332	38,794,660
INCREASE (DECREASE) IN FUND BALANCE	\$ (446,162)	\$ 1,937,381	\$ 2,352,912	\$ 595,713
ENDING FUND BALANCE	\$ 7,867,325	\$ 8,313,487	\$ 6,376,106	\$ 4,023,194
AVAILABLE RESERVES²	\$ 3,598,954	\$ 3,200,211	\$ 2,447,021	\$ 1,565,066
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO³	6.79%	6.38%	5.83%	4.13%
LONG-TERM OBLIGATIONS	N/A	\$ 55,426,768	\$ 52,019,280	\$ 52,181,831
K-12 AVERAGE DAILY ATTENDANCE AT P-2	4,222	4,235	4,303	4,140

The General Fund balance has increased by \$4,290,293 over the past two years. The fiscal year 2016-2017 budget projects a decrease of \$446,162 (5.37 percent). For a district this size, the State recommends available reserves of at least three percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in each of the past three years but anticipates incurring an operating deficit during the 2016-2017 fiscal year. Total long-term obligations have increased by \$3,244,937 over the past two years.

Average daily attendance has increased by 95 over the past two years. Decline of 13 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.

³ On behalf payments of \$1,130,516, \$824,875, and \$943,994 have been excluded from the calculation of available reserves for the fiscal years ending June 30, 2016, 2015, and 2014, respectively.

⁴ General Fund amounts do not include activity related to the consolidation of Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects, and Fund 20, Special Reserve Fund for Postemployment Benefits, as required by GASB Statement No. 54.

See accompanying note to supplementary information.

BANNING UNIFIED SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2016

	Adult Education Fund	Child Development Fund	Building Fund
ASSETS			
Deposits and investments	\$ (3,811)	\$ -	\$ 51,190
Receivables	28,760	-	88
Due from other funds	26,578	2,698	-
Total Assets	<u>\$ 51,527</u>	<u>\$ 2,698</u>	<u>\$ 51,278</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 23,712	\$ 2,670	\$ -
Due to other funds	12,648	28	-
Total Liabilities	<u>36,360</u>	<u>2,698</u>	<u>-</u>
Fund Balances:			
Restricted	15,167	-	51,278
Total Fund Balances	<u>15,167</u>	<u>-</u>	<u>51,278</u>
Total Liabilities and Fund Balances	<u>\$ 51,527</u>	<u>\$ 2,698</u>	<u>\$ 51,278</u>

See accompanying note to supplementary information.

Capital Facilities Fund	County School Facilities Fund	Total Non-Major Governmental Funds
\$ 394,328	\$ 437	\$ 442,144
360,584	1	389,433
-	-	29,276
<u>\$ 754,912</u>	<u>\$ 438</u>	<u>\$ 860,853</u>

\$ 31,997	\$ -	\$ 58,379
-	-	12,676
<u>31,997</u>	<u>-</u>	<u>71,055</u>

722,915	438	789,798
<u>722,915</u>	<u>438</u>	<u>789,798</u>

<u>\$ 754,912</u>	<u>\$ 438</u>	<u>\$ 860,853</u>
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BANNING UNIFIED SCHOOL DISTRICT

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

	Adult Education Fund	Child Development Fund	Building Fund
REVENUES			
Local Control Funding Formula	\$ 26,578	\$ -	\$ -
Other State sources	133,412	-	-
Other local sources	63,095	-	588
Total Revenues	223,085	-	588
EXPENDITURES			
Current			
Instruction	144,956	-	-
Instruction-related activities:			
Instructional library, media, and technology	11,614	-	-
School site administration	48,700	-	-
Administration:			
All other administration	2,648	-	-
Plant services	-	-	-
Facility acquisition and construction	-	-	3,938
Debt Service			
Principal	-	-	-
Interest and other	-	-	-
Total Expenditures	207,918	-	3,938
NET CHANGE IN FUND BALANCES	15,167	-	(3,350)
Fund Balance - Beginning	-	-	54,628
Fund Balance - Ending	\$ 15,167	\$ -	\$ 51,278

See accompanying note to supplementary information.

Capital Facilities Fund	County School Facilities Fund	Total Non-Major Governmental Funds
\$ -	\$ -	\$ 26,578
-	-	133,412
408,351	2	472,036
<u>408,351</u>	<u>2</u>	<u>632,026</u>
-	-	144,956
-	-	11,614
-	-	48,700
-	-	2,648
(33,625)	-	(33,625)
132,396	-	136,334
28,686	-	28,686
7,626	-	7,626
<u>135,083</u>	<u>-</u>	<u>346,939</u>
273,268	2	285,087
449,647	436	504,711
<u>\$ 722,915</u>	<u>\$ 438</u>	<u>\$ 789,798</u>

BANNING 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.

Local Education Agency Organization Structure

This schedule provides information about the District's boundaries, 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.

Schedule of Instructional Time

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

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

Reconciliation of Annual Financial and Budget Report With Audited Financial Statements

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

Schedule of Financial Trends and Analysis

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

BANNING UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2016

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

The Non-Major Governmental Fund Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances is included to provide information regarding the individual fund that has 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
Banning Unified School District
Banning, 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 Banning 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 Banning Unified School District's basic financial statements, and have issued our report thereon dated November 30, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Banning 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 Banning Unified School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Banning 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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 item 2016-001.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Banning 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 Banning Unified School District in a separate letter dated November 30, 2016.

Banning Unified School District's Response to Findings

Banning Unified School District's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Banning 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.

Vavineck Tume Day & Co. LLP

Riverside, California
November 30, 2016



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

Governing Board
Banning Unified School District
Banning, California

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

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

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

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

Vavinec Tume Day & Co LLP

Riverside, California
November 30, 2016



INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
Banning Unified School District
Banning, California

Report on State Compliance

We have audited Banning Unified School District's (the District) 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 Banning 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 Banning 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 Banning Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Banning Unified School District's compliance with those requirements.

Basis for Qualified Opinion on Classroom Teacher Salaries

As described in the accompanying schedule of findings and questioned costs, Banning Unified School District did not comply with requirements regarding Classroom Teacher Salaries as identified in finding 2016-002. Compliance with such requirements is necessary, in our opinion, for Banning Unified School District to comply with the requirements applicable to that program.

Qualified Opinion on Classroom Teacher Salaries

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Banning 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, Banning 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 Banning 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	Yes
Continuation Education	Yes, see below
Instructional Time	Yes
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	No, see below
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	No, see below
Middle or Early College High Schools	No, see below
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	No, see below
After School Education and Safety Program:	
General Requirements	Yes
After School	Yes
Before School	No, see below

	Procedures Performed
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

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

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

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

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

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

The District did not have expenditures for California Clean Energy Jobs Act; therefore, we did not perform procedures related to the California Clean Energy Jobs Act program.

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

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

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

Vivinet Time Day & Co LLP

Riverside, California
November 30, 2016

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

BANNING 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>None reported</u>
Type of auditor's report issued on compliance for major Federal programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with Section 200.516(a) of the Uniform Guidance?	<u>No</u>

Identification of Federal major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>10.553, 10.555, 10.559</u>	<u>Child Nutrition 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 State programs:	<u>Qualified</u>
Unmodified for all State programs except for the following State program which was qualified:	

<u>Name of State Program</u>
<u>Classroom Teacher Salaries</u>

BANNING UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2016

The following finding represents 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 finding has been coded as follows:

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

2016-001 30000

Adult Education Fund Deficit Cash Balance

Criteria or Specific Requirements

The governing board of any school district that reported a negative unrestricted fund balance or a negative cash balance in the annual report required by *Education Code* Section 42127 or in the audited annual financial statements required by Section 41020 shall include with the budget submitted in accordance with *Education Code* Section 42127 and the certifications required by *Education Code* Section 35015 a statement that identifies the reasons for the negative unrestricted fund balance or negative cash balance and the steps that have been taken to ensure that the negative balance will not occur at the end of the current fiscal year.

Condition

At June 30, 2016, the District's Adult Education Fund had a negative cash balance of \$3,811.

Questioned costs

There were no questioned costs associated with the condition found.

Context

The condition identified was determined through review and testing related to the District's General Fund deposits and investments.

Effect

The financial statement impact of this situation is that the Adult Education Fund could be at risk of not being able to meet its financial obligations and maintain current service levels without additional encroachment on the General Fund.

Cause

The cause is related to timing differences at year end and not enough funds coming from the General Fund to bring the cash balance positive as of year end.

BANNING UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2016

Recommendation

As this appears to be related to timing differences with the temporary loan given to the Adult Education Fund by the General Fund, this should be monitored more closely to avoid the occurrence of a negative cash balance at year end.

Corrective Action Plan

Staff will ensure all cash balances are monitored on a daily basis prior to the fiscal year end and ensure sufficient cash is available for all warrant and payroll processing. Month end close processes will be implemented to prevent this from occurring in the future.

BANNING UNIFIED SCHOOL DISTRICT

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

None reported.

BANNING UNIFIED SCHOOL DISTRICT

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

The following finding represents instances of noncompliance and/or questioned costs relating to State program laws and regulations. The finding has been coded as follows:

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
61000	Classroom Teacher Salaries

2016-002 61000

Classroom Teacher Salaries

Criteria or Specific Requirements

In accordance with the requirements of *Education Code* Section 41372, pursuant to the provisions of *Education Code* Section 41374, determine whether, after applicable audit adjustments, the District met the current expense of education percentage requirements for expenditure for payment of salaries of classroom teachers as set forth in *Education Code* Section 41372.

Condition

For the current year after applicable audit adjustments, the District did not meet the current expense of education percentage requirements for expenditure for payment of salaries of classroom teachers as set forth in *Education Code* Section 41372. For unified school districts, the minimum percentage required is 55 percent.

Questioned Costs

The District's current expense of education for the year audited after applicable audit adjustments was \$44,176,495, and the dollar amount by which the District was deficient was \$30,924.

Context

The condition identified was determined through analysis and testing of classroom teacher salaries, and the form CEA prepared by the District for the current year.

Effect

As a result of our testing, the District does not appear to be in compliance with current expense of education percentage requirements for expenditure for payment of salaries of classroom teachers as set forth in *Education Code* Section 41372.

Cause

It appears that the condition identified has materialized as a result of the District cuts that were made to instructional salaries and fixed costs as a result of the need to layoff a number of teachers to increase class sizes.

BANNING UNIFIED SCHOOL DISTRICT

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

Recommendation

The District should file the appropriate *Application for Exemption from the Required Expenditures for Classroom Teachers' Salaries* to the County Superintendent of Schools.

Corrective Action Plan

Banning Unified School District designates the full minimum proportionality calculation result for each fiscal year to the Supplemental and Concentration funding in Resource 0702. In the 2015-2016 year, this represented 19.9 percent of the total LCFF funding sources.

These monies are prioritized for expenditures through the Local Control Accountability Plan with of collaboration from the Board of Education, administration, certificated and classified staff, parents, and community.

The expenditures of these funds for the District were 69 percent for salaries and benefits and 31 percent for all other series of object codes.

The 31 percent for non-compensation related expenditures adopted in our plan increased considerably the monies the District has been in a position to spend in years prior to the LCFF funding methodology on items other than the total compensation packages for employees.

In addition, in the 2015-2016 budget year, three certificated positions (at an average cost of approximately \$85,000) remained unfilled for the entire school year as we had difficulties finding individuals with the required credentials. The ability to have filled only one of these positions would have made the District in excess of the minimum.

There were also 12.564 FTEs that remained unfilled in the classified service for the entire school year. In many of these cases, substitutes were utilized at far less cost than the amount that was budgeted for the permanent positions. These were aides for the transitional and traditional kindergarten classes and special education aides.

The CEB report submitted with the 2016-2017 Adopted Budget indicates that the District generated a percentage of 57.27 percent, 2.7 percent higher than the required minimum. In addition, with the negotiated settlement now reached with our bargaining units, this amount should increase commensurate with those adjustments.

BANNING 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 Findings and Questioned Costs.

Financial Statement Findings

2015-001 30000 - Financial Accounting Controls - Segregation of Duties

Significant Deficiency

Criteria or Specific Requirements

Industry standards and best business practices related to accounting and internal control require that an entity adopt, implement, and monitor procedures that will allow for timely reporting of financial information to management and those charged with governance.

Condition

We identified the following deficiencies in internal controls over the District's segregation of duties functions:

- Nutrition services department has a single employee who creates purchase orders, creates vendors, and processes payments.
- Management has the ability to create and enter employee data, as well as approve the payroll to be processed.

Questioned Costs

There were no questioned costs associated with the condition found.

Context

The conditions identified were determined through analysis and testing of internal controls over the District processes.

Effect

A lack of proper segregation of duties increases the likelihood of misstatement due to error or fraud and decreases the likelihood of accurate financial reporting.

Cause

Reductions in the Fiscal Services staffing have impacted the ability to maintain adequate internal controls related to segregation of duties.

BANNING UNIFIED SCHOOL DISTRICT

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

Recommendation

Continued monitoring of these functions is essential to ensure the accuracy of transactions posted within the Nutrition Services Department and the Payroll Department. When available, the impact of staffing reductions should be reviewed and evaluated for potential reinstatement of the position(s).

Current Status

Implemented.

Federal Awards Findings

None reported.

State Awards Findings

2015-002 40000 - After School Education and Safety Program - Attendance and Reporting - Documentation

Criteria or Specific Requirements

Compliance requirements, detailed in *Education Code* Section 8483.7, mandate that schools maintain adequate source documents supporting the number of students served by the After School Program (the Program) as reported semi-annually to the California Department of Education (CDE).

Condition

There is inadequate documentation indicating actual student participation in the Program. Source documents used for recording attendance do not consistently agree with the records included in the total number of students served.

Questioned Costs

There were no questioned costs associated with the condition found.

Context

The condition identified was determined through analysis of attendance records from two of the sites that operate the Program. Manual sign out rosters were reviewed for each child's sign out time in order to determine daily participation. The auditor selected two schools for the second semi-annual reporting period dated July 1, 2014 to December 31, 2014. The auditor reviewed a sample of manual sign out rosters for the month of November 2014 and noted five exceptions in a sample size of 25 students.

BANNING UNIFIED SCHOOL DISTRICT

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

Effect

Conditions identified make the Program's ability to report an accurate number of students served to the State as required as identified in the State Audit Guide in the required semi-annual attendance reports difficult. Per *Education Code* Section 8483.7, the CDE may terminate a grant that does not comply with fiscal reporting, attendance reporting, or outcomes reporting requirements. The CDE may also withhold the grant allocation for a program if the prior year reporting is outstanding.

Cause

It appears that the condition identified has materialized as a result of the absence of properly maintaining the standardized attendance recording and reporting procedures by those responsible for administering the Program.

Recommendation

The District may want to consider revising procedures used to take attendance. Revised procedures should incorporate standardized procedures that are necessary to record and report attendance related to the Program that are accurate and consistent. The District should clearly communicate its expectation for attendance documentation to all program administrators in order to prevent future non-compliance issues.

Current Status

Implemented.



Governing Board
Banning Unified School District
Banning, California

In planning and performing our audit of the financial statements of the governmental activities of Banning Unified School District (the District) as of and for the year ended June 30, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that may exist that were not identified.

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 entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

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. We consider the following deficiencies in the District's internal control to be control deficiencies:

CURRENT YEAR OBSERVATIONS

DISTRICT

Accrual of Vacation Leave Balances

Observation

The District has a policy related to the accrual of vacation leave which provides a maximum of 240 hours to be accrued and carried forward. Time that is accrued over this amount is to be approved in writing by the employee's supervisor. As of June 30, 2016, a total of 40 employees had accrued unused vacation leave over these 240 hours. We were unable to locate the written approvals for these overages.

Recommendation

A review of unused vacation leave balances should be performed by the departmental supervisors, and employees should be encouraged to take the time off that is intended for them. A plan for each employee to take the unused time off should be developed, and approved and monitored by the supervisor.

ASSOCIATED STUDENT BODY ACCOUNTS

Nicolet Middle School

Associated Student Body – Cash Disbursement Procedures

Observation

In review of disbursement checks, the auditor noted that the site was only having one of the two required authorization signatures on their checks.

Recommendation

Disbursement checks are required to have two authorization signatures. Of these two signatures, bookkeepers should not be signatories of the accounts because they are involved with so many other steps in the process that this would prevent a proper segregation of duties for internal controls. These signatures should also not include students.

Banning High School

Associated Student Body – Snack Bar inventory

Observation

The following deficiencies exist in the internal control structure of the snack bar operated at sporting events:

- Tally sheets are not being utilized in order to reconcile the items that were sold to the monies collected or inventory.
- Inadequate safeguarding of assets.
- An inventory record is not maintained for merchandise sold or purchased.

Recommendation

We recommend that a quarterly physical inventory be taken and reconciled to snack bar sales to ensure all merchandise has been accounted for. The prior quarter's ending inventory plus quarterly purchases less quarterly sales should equal the current physical count. The snack bar account should document transactions regarding the sales and purchases of the snack bar. This would allow the profitability of the snack bar to be analyzed during the year. All items of the snack bar should be properly locked up in a secure location and accounted for at all times. It is also recommended that tally sheets be used and reconciled to student store sales and inventory in order to ensure all merchandise has also been accounted for.

Associated Student Body – Financial Statement

Observation

In reviewing the site's financial statements, it was discovered that the change fund was not being reported on the financial statements.

Recommendation

The site should make the correct changes to the financial statements to report the amount of cash being kept at the site. It is important to have the amount of cash on hand being kept at the site reported on the financial statements to ensure the accuracy and to account for the cash on hand.

Associated Student Body – Safeguarding of Assets

Observation

During our examination, it came to our attention that the ASB does not maintain complete and current procedures over the safeguarding of assets (i.e. snack bar inventory). In order to adequately safeguard assets and to comply with Federal and State requirements, the ASB should provide the following:

- Maintain detail records indicating asset description, acquisition date and costs, funding source, and location.
- Such assets should be periodically checked by physically counting it with differences reconciled and records adjusted to reflect shortages/overages.
- All inventory items should be marked so as identify them as property of the District and inventory items purchased with grant funds specifically marked as such.

Recommendation

We recommended that the ASB advisor review the procedures relating to the safeguarding of assets and implement appropriate modifications to ensure the safeguarding of assets in compliance with Federal and State requirements.

Associated Student Body – Approval of Disbursements

Observation

During the review over of disbursements, 3 out of the 13 tested were approved after the invoice date. Without disbursements being approved before ordering merchandise, club spending might deplete the group's account causing deficit spending. Also, approving merchandise before ordering allows for consideration to be made on whether the items are a prohibited expenditure.

Recommendation

To strengthen internal controls over the purchasing function, purchase requisitions and/or purchase orders should be prepared prior to purchasing or ordering merchandise. This will allow the ASB Bookkeeper to ensure sufficient funds are available for each purchase, and proper approval has been maintained to approve that the expense is appropriate.

Associated Student Body – Disbursements

Observation

The auditor noted 2 out of the 13 disbursements tested had no signatures on the invoice indicating all items were received before payment.

Recommendation

All invoices should be accompanied by a purchase order, where applicable, and signed receiving documentation. This reduces the risk of unauthorized spending, and items being paid for and not received.

Associated Student Body – Disbursements

Observation

During the review of disbursements auditor noted 2 out of the 13 pre-approval forms. Without the control document of a pre-approval form, club spending might deplete the group's account causing deficit spending and the documentation that the required three signatures pursuant to California *Education Code* Section 48933(5)(b) have been obtained prior to the disbursement being made.

Recommendation

We recommend the bookkeeper to implement proper internal controls to ensure approvals are provided before processing future ASB transactions. Thus, the Education Code states all ASB expenditures must be pre-approved accordingly.

Associated Student Body – Scholarships

Observation

The auditor noted scholarship checks were made out to students instead of an institution of higher learning.

Recommendation

In order to prevent cash awards, checks should be made out to the higher institution in which the child anticipates to attend.

Associated Student Body – Disbursements Backup

Observation

It was noted that 2 out of the 13 disbursements tested lacked supporting documentation for purchase

Recommendation

All invoices should be accompanied by a purchase order, where applicable, and signed receiving documentation. This reduces the risk of unauthorized spending, and items being paid for and not received. Purchase orders provide clubs with documentation of items requested that can then be checked to the receiving documentation for accuracy and completeness, giving the clubs better control over their spending and inventory.

We appreciate the assistance of office personnel at the District and the school sites during our audit. If additional information is needed to assist with the implementation of these recommendations or to provide training, please call us.

This communication is intended solely for the information and use of management, the Governing Board, and others within the District, and is not intended to be and should not be used by anyone other than these specified parties.

Vavineck Time Day & Co. LLP

Riverside, California
November 30, 2016