

KERMAN UNIFIED SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

JUNE 30, 2016

KERMAN UNIFIED SCHOOL DISTRICT

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FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 13, budgetary comparison schedules on pages 63 and 64, schedule of other postemployment benefits funding progress on page 65, schedule of the district's proportionate share of 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 Kerman 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2016, on our consideration of the Kerman 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 Kerman Unified School District's internal control over financial reporting and compliance.

Vannink, Trine, Day & Co, LLP

Fresno, California
December 13, 2016

Management's Discussion and Analysis

This section of Kerman 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. They present governmental activities and business-type activities separately. 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 three categories of activities: governmental, business-type, and fiduciary.

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

The *Fiduciary Funds* are trust and agency funds. Trust funds focus reporting on net position and changes in net position, and agency funds report only a balance sheet and do not have a measurement focus.

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 Kerman Unified School District.

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

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

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

KERMAN UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

Governmental Funds - All 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.

THE DISTRICT AS A TRUSTEE

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or *fiduciary*, for funds held on behalf of others, like our funds for associated student body activities and scholarships. The District's fiduciary activities are reported in the *Statements of Fiduciary Net Position* and *Statement of Revenues, Expenses, and Changes in 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 total net position increased from \$5.8 million to \$15.3 million.
- The District's governmental activities revenues increased from \$51.8 million to \$63.1 million.
- The District's governmental activities expenses increased from \$49.4 million to \$53.6 million.
- The General Fund reported an increase in fund balance this year of \$1.2 million.

KERMAN UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

THE DISTRICT AS A WHOLE

Net Position

The District's net position was \$15.3 million for the fiscal year ended June 30, 2016. Of this amount, \$3.9 million was restricted. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the governing board's ability to use net position for day-to-day operations. Our analysis below, in summary form, focuses on the net position (Table 1) and change in net position (Table 2) of the District's governmental activities.

Table 1

(Amounts in millions)

	Governmental Activities		
	2016	Restated 2015	Difference
Assets			
Current and other assets	\$ 27.2	\$ 18.6	\$ 8.6
Capital assets	50.4	45.9	4.5
Total Assets	77.6	64.5	13.1
Deferred Outflows of Resources	8.0	2.4	5.6
Liabilities			
Current liabilities	4.4	2.4	2.0
Long-term obligations	24.6	23.2	1.4
Net pension liability	34.5	28.0	6.5
Total Liabilities	63.5	53.6	9.9
Deferred Inflows of Resources	6.8	7.5	(0.7)
Net Position			
Net investment in capital assets	28.8	24.7	4.1
Restricted	3.9	3.4	0.5
Unrestricted	(17.4)	(22.3)	4.9
Total Net Position	\$ 15.3	\$ 5.8	\$ 9.5

The \$15.3 million in net position of governmental activities represents the accumulated results of all past years' operations.

KERMAN 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*. Table 2 takes the information from the Statement, rounds off the numbers, and rearranges them slightly so you can see our total revenues for the year.

Table 2

(Amounts in millions)	Governmental Activities		
	2016	2015	Difference
Revenues			
Program revenues:			
Charges for services	\$ 0.6	\$ 0.6	\$ -
Operating grants and contributions	9.9	9.2	0.7
General revenues:			
Federal and State aid not restricted	45.3	36.8	8.5
Property taxes	5.4	4.8	0.6
Other general revenues	1.9	0.4	1.5
Total Revenues	63.1	51.8	11.3
Expenses			
Instruction related	34.3	31.8	(2.5)
Student support services	7.6	6.8	(0.8)
Administration	4.1	3.4	(0.7)
Plant services	5.9	5.5	(0.4)
Other	1.7	1.9	0.2
Total Expenses	53.6	49.4	(4.2)
Change in Net Position	\$ 9.5	\$ 2.4	\$ 7.1

Governmental Activities

As reported in the *Statement of Activities*, the cost of all of our governmental activities this year was \$53.6 million. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$5.4 million because the cost was paid by those who benefited from the programs (\$0.6 million) or by other governments and organizations who subsidized certain programs with grants and contributions (\$9.9 million). We paid for the remaining "public benefit" portion of our governmental activities with \$47.2 million in Federal and State funds, and other revenues, like interest and general entitlements.

In Table 3, we have presented the net cost of each of the District's largest functions. 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.

KERMAN UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

Table 3

(Amounts in millions)

		Net Cost of Services	
		2016	2015
Instruction		\$ 23.5	\$ 22.3
Instruction-related activities		4.3	3.8
Other pupil services		4.2	3.2
General administration		3.7	3.0
Plant services		5.8	5.5
Other		1.6	1.8
Total		<u>\$ 43.1</u>	<u>\$ 39.6</u>

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$22.7 million, which is an increase of \$6.5 million from last year (Table 4).

Table 4

(Amounts in millions)

		Fund Balances	
		June 30, 2016	June 30, 2015
General		\$ 10.8	\$ 9.6
Child Development		0.1	0.1
Special Reserve Capital Outlay		9.5	4.3
Non-Major Governmental Funds		2.3	2.2
Total		<u>\$ 22.7</u>	<u>\$ 16.2</u>

The fund balance in the General Fund increased from \$9.6 million to \$10.8 million. This increase was primarily due to increased funding. The fund balance in the Special Reserve Capital Projects Fund increased by \$5.2 million primarily due to a \$7.0 million transfer in from the General Fund. The remaining funds reflected little change from the prior year.

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 September 15, 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.

The District budgeted a decrease in General Fund balance of approximately \$1.8 million. Although revenues were approximately \$1.1 million more than budgeted, expenditures and transfers out were approximately \$1.9 million less than budgeted, leaving the fund with an increase of approximately \$1.2 million.

KERMAN UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2016, the District had \$50.4 million in a broad range of capital assets (net of depreciation), including land, buildings, furniture, and equipment. This amount represents a net increase (including additions, deductions, and depreciation) of approximately \$4.5 million (Table 5).

Table 5

(Amounts in millions)

	Governmental Activities		
	2016	Restated 2015	Difference
Land and construction in process	\$ 7.4	\$ 2.3	\$ 5.1
Buildings and improvements	41.7	42.5	(0.8)
Equipment	1.3	1.1	0.2
Total	<u>\$ 50.4</u>	<u>\$ 45.9</u>	<u>\$ 4.5</u>

The 2014-2015 capital assets were restated because the District contracted with a third party company to evaluate the assets held by the District. We present more detailed information about our capital assets in the Notes to Financial Statements.

Long-Term Obligations

At the end of this year, the District had \$24.6 million in long-term obligations outstanding versus \$23.2 million last year, an increase of six percent which was accreted interest of the General obligation bonds and increases in Other postemployment benefits. The obligations consisted of:

Table 6

(Amounts in millions)

	Governmental Activities		
	2016	2015	Difference
General obligation bonds (Financed with property taxes)	\$ 21.6	\$ 21.3	\$ 0.3
Other postemployment benefits	2.9	1.8	1.1
Compensated absences	0.1	0.1	-
Total long-term obligations	<u>\$ 24.6</u>	<u>\$ 23.2</u>	<u>\$ 1.4</u>

We present more detailed information regarding our long-term obligations in the Notes to Financial Statements.

KERMAN UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

Net Pension Liability (NPL)

The District implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* as of June 30, 2015, which required the District to recognize its proportionate share of the unfunded pension obligation for CalSTRS and CalPERS. As of June 30, 2016, the District reported Deferred Outflows from pension activities of \$8.0 million, Deferred Inflows from pension activities of \$6.8 million, and a Net Pension Liability of \$34.5 million. We present more detailed information regarding our net pension liability in the Notes to Financial Statements.

SIGNIFICANT EVENTS OF FISCAL YEAR 2015-2016 ARE NOTED BELOW:

The nation's economy has continued to expand, albeit at a slow rate. This has been a welcome change for schools in the State of California with respect to School District budgets. We have completed our second cycle of the Local Control Accountability Plan (LCAP), and our fourth year of the State adopted Local Control Funding Formula (LCFF) which has brought into play a much higher community involvement with respect to developing the School District's annual budget. LCFF has provided significant financial relief to Kerman Unified School District, and most LEAs throughout the State. There are two significant events that are more of a continuation for last year and into the future that will have significant impacts on our budgets. First the state adopted Common Core Standards (CCS). The significant impact to budget from Common Core is the large one time and ongoing investment in technology and infrastructure. The second significant impact to budget is in the need for modernization and the construction of new facilities. What compounds the potential impacts to the Districts current and future financial positions is the lack of State contribution funding for school facilities. Currently there is not funding from the state to help for the construction of desperately needed school facilities in Kerman and LEAs throughout the state.

STUDENT ENROLLMENT AND DEMOGRAPHIC TRENDS

The City of Kerman and Kerman Unified are currently the fastest growing community and district in Fresno County

- Kerman Unified School District had an enrollment of approximately 5,032 students for the 2015-2016 school year up 70 students from 2014-2015 school year.
- In addition to tracking enrollment, the District also closely monitors actual Average Daily Attendance (ADA). Ada is a lower number than enrollment and typically comes in around 95 percent of enrollment. ADA is used to calculate the funding the District receives from the State under the LCFF. Along with ADA the District receives additional grant funding through LCFF from its unduplicated student counts. This is the number of student that fall into social economic and demographic groups of English Learners, Federal Lunch Program, Foster Youth and Homeless students which is expressed in a percent of total enrollment. For Kerman Unified this unduplicated number is over 88 percent of the enrollment thus qualifying Kerman Unified for significant amounts of this additional grant funding to better service out student population.
- Needless to say School Districts place great importance on the accurate projection of student enrollment, ADA, and unduplicated count for the budget due to the funding impacts associated to these student counts.

KERMAN UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

STUDENT ACHIEVEMENT

District schools continue to make progress and show growth on the academic achievement goals that have been set by the Board of Trustees and meet the rigorous demand of the California Common Core State Standards.

The District is now in year four of full implementation of the California Common Core State Standards. We continue our three cycles of district-wide teacher professional development through our Fresno County Office of Education emphasizing the following:

- Oral and Written Language Development
- Language Objectives
- Utilization of strategies/structures that maximize student engagement and learning opportunities
- Incorporate newly adopted ELA/ELD Materials into all sessions and content
- CAASPP Rubrics and Assessment
- Digital Library Connection

Each professional development session is supported with follow-up coaching sessions for every participating teacher, academic coach and site principal emphasizing lesson design and delivery.

The District has worked collaboratively with parents, staff and the community to implement a spending plan for both the eight state priorities as embedded in the Local Control Funding Formula and Common Core funds. Common learning goals provided a clear vision of what all stakeholders strive for. These learning goals will support the desired outcome that all students meet college and career readiness and are prepared to succeed in a global economy.

Student achievement is assessed using multiple measures for accountability purposes. Pre-assessments are utilized to determine what the student already knows. Formative Assessments check student learning as new standard is being taught. Interim Assessments are flexible and open and are used for actionable feedback. Summative Assessments are culminating and assess the taught standards for the entire year.

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 Peggy Rodgers, Director of Fiscal Services at (559) 843-9006.

Kraig Magnussen -Assistant Superintendent CBO
Kerman Unified School District
151 South First Street
Kerman, California 93630

KERMAN UNIFIED SCHOOL DISTRICT

STATEMENT OF NET POSITION JUNE 30, 2016

	Governmental Activities
ASSETS	
Deposits and investments	\$ 24,126,168
Receivables	2,860,457
Prepaid expenses	59,701
Stores inventories	88,375
Nondepreciable capital assets	7,407,038
Capital assets being depreciated	74,868,048
Accumulated depreciation	(31,846,131)
Total Assets	77,563,656
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources related to pensions	8,018,424
LIABILITIES	
Accounts payable	4,340,274
Unearned revenue	106,432
Long-term obligations:	
Current portion of long-term obligations other than pensions	808,337
Noncurrent portion of long-term obligations other than pensions	23,820,960
Total Long-Term Obligations	24,629,297
Aggregate net pension liability	34,472,211
Total Liabilities	63,548,214
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to pensions	6,790,071
NET POSITION	
Net investment in capital assets	28,801,883
Restricted for:	
Debt service	990,270
Capital projects	901,232
Educational programs	1,613,006
Other activities	427,384
Unrestricted	(17,489,980)
Total Net Position	\$ 15,243,795

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

KERMAN UNIFIED SCHOOL DISTRICT

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2016

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenues and Changes in Net Position Governmental Activities
		Charges for Services and Sales	Operating Grants and Contributions	
Governmental Activities:				
Instruction	\$ 29,475,422	\$ 209,977	\$ 5,770,295	\$ (23,495,150)
Instruction-related activities:				
Supervision of instruction	729,122	-	298,273	(430,849)
Instructional library, media, and technology	852,493	-	-	(852,493)
School site administration	3,260,338	-	248,276	(3,012,062)
Pupil services:				
Home-to-school transportation	2,300,464	-	-	(2,300,464)
Food services	3,016,051	356,330	2,410,827	(248,894)
All other pupil services	2,224,933	-	586,181	(1,638,752)
Administration:				
Data processing	930,753	-	-	(930,753)
All other administration	3,207,956	30,074	408,913	(2,768,969)
Plant services	5,922,417	2,301	85,865	(5,834,251)
Ancillary services	502,444	-	3,374	(499,070)
Interest on long-term obligations	1,073,390	-	-	(1,073,390)
Other outgo	106,092	-	47,349	(58,743)
Total Governmental Activities	\$ 53,601,875	\$ 598,682	\$ 9,859,353	(43,143,840)
General revenues and subventions:				
Property taxes, levied for general purposes				4,443,100
Property taxes, levied for debt service				729,905
Taxes levied for other specific purposes				239,916
Federal and State aid not restricted to specific purposes				45,345,053
Interest and investment earnings				229,592
Interagency revenues				3,855
Miscellaneous				1,614,329
Subtotal, General Revenues				52,605,750
Change in Net Position				9,461,910
Net Position - Beginning as restated				5,781,885
Net Position - Ending				\$ 15,243,795

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

KERMAN UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2016

	General Fund	Child Development Fund	Special Reserve Capital Outlay Fund
ASSETS			
Deposits and investments	\$ 8,543,641	\$ 1,145,324	\$ 11,966,559
Receivables	2,785,209	5,193	29,138
Due from other funds	2,745,240	15,014	-
Prepaid expenditures	58,261	-	-
Stores inventories	66,645	-	-
Total Assets	\$ 14,198,996	\$ 1,165,531	\$ 11,995,697
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 3,228,533	\$ 973,947	\$ 71,990
Due to other funds	22,009	116,197	2,472,008
Unearned revenue	106,432	-	-
Total Liabilities	3,356,974	1,090,144	2,543,998
Fund Balances:			
Nonspendable	130,406	-	-
Restricted	1,537,619	75,387	-
Assigned	4,090,781	-	9,451,699
Unassigned	5,083,216	-	-
Total Fund Balances	10,842,022	75,387	9,451,699
Total Liabilities and Fund Balances	\$ 14,198,996	\$ 1,165,531	\$ 11,995,697

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

Non-Major Governmental Funds	Total Governmental Funds
\$ 2,470,644	\$ 24,126,168
40,917	2,860,457
6,995	2,767,249
1,440	59,701
21,730	88,375
<u>\$ 2,541,726</u>	<u>\$ 29,901,950</u>

\$ 65,804	\$ 4,340,274
157,035	2,767,249
-	106,432
<u>222,839</u>	<u>7,213,955</u>
23,170	153,576
2,295,717	3,908,723
-	13,542,480
-	5,083,216
<u>2,318,887</u>	<u>22,687,995</u>
<u>\$ 2,541,726</u>	<u>\$ 29,901,950</u>

KERMAN UNIFIED SCHOOL DISTRICT

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

Total Fund Balance - Governmental Funds **\$ 22,687,995**

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

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

The cost of capital assets is	\$ 82,275,086	
Accumulated depreciation is	<u>(31,846,131)</u>	
Net Capital Assets		50,428,955

Expenditures relating to contributions made to pension plans were recognized on the modified accrual basis, but are not recognized on the accrual basis. 2,911,317

The net change in proportionate share of net pension liability as of the measurement date is not recognized as an expenditure under the modified accrual basis, but is recognized on the accrual basis over the expected average remaining service life of members receiving pension benefits. 1,207,815

The difference between projected and actual earnings on pension plan investment are not recognized on the modified accrual basis, but are recognized on the accrual basis as an adjustment to pension expense. (2,417,784)

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. 36,819

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. (509,814)

Net pension liability is not due and payable in the current period, and is not reported as a liability in the funds. (34,472,211)

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.

General obligation bonds	21,627,073	
Other postemployment benefits (OPEB)	2,927,165	
Compensated absences	<u>75,059</u>	
Total Long-Term Obligations		(24,629,297)
Total Net Position - Governmental Activities		<u>\$ 15,243,795</u>

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

KERMAN UNIFIED SCHOOL DISTRICT

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

	General Fund	Child Development Fund
REVENUES		
Local Control Funding Formula	\$ 46,076,983	\$ -
Federal sources	3,202,300	-
Other State sources	5,630,385	778,852
Other local sources	3,104,992	13,164
Total Revenues	58,014,660	792,016
EXPENDITURES		
Current		
Instruction	27,139,713	585,000
Instruction-related activities:		
Supervision of instruction	705,152	-
Instructional library, media and technology	799,455	-
School site administration	2,941,352	162,489
Pupil services:		
Home-to-school transportation	1,603,704	-
Food services	87,052	-
All other pupil services	2,150,473	-
Administration:		
Data processing	866,284	-
All other administration	2,859,057	48,180
Plant services	5,406,255	-
Facility acquisition and construction	4,570,885	-
Ancillary services	499,495	-
Other outgo	106,092	-
Debt service		
Principal	-	-
Interest and other	-	-
Total Expenditures	49,734,969	795,669
Excess (Deficiency) of Revenues Over Expenditures	8,279,691	(3,653)
Other Financing Sources (Uses)		
Transfers in	-	15,014
Transfers out	(7,019,109)	-
Net Financing Sources (Uses)	(7,019,109)	15,014
NET CHANGE IN FUND BALANCES	1,260,582	11,361
Fund Balance - Beginning	9,581,440	64,026
Fund Balance - Ending	\$ 10,842,022	\$ 75,387

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

Special Reserve Capital Outlay Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 46,076,983
-	2,244,344	5,446,644
-	188,117	6,597,354
77,078	1,830,330	5,025,564
<u>77,078</u>	<u>4,262,791</u>	<u>63,146,545</u>
-	-	27,724,713
-	-	705,152
-	-	799,455
-	-	3,103,841
-	-	1,603,704
-	2,670,250	2,757,302
-	-	2,150,473
-	-	866,284
-	128,859	3,036,096
472,008	148,038	6,026,301
1,422,122	424,545	6,417,552
-	-	499,495
-	-	106,092
-	695,000	695,000
-	127,054	127,054
<u>1,894,130</u>	<u>4,193,746</u>	<u>56,618,514</u>
<u>(1,817,052)</u>	<u>69,045</u>	<u>6,528,031</u>
7,000,000	4,095	7,019,109
-	-	(7,019,109)
<u>7,000,000</u>	<u>4,095</u>	<u>-</u>
5,182,948	73,140	6,528,031
4,268,751	2,245,747	16,159,964
<u>\$ 9,451,699</u>	<u>\$ 2,318,887</u>	<u>\$ 22,687,995</u>

KERMAN 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 **\$ 6,528,031**
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 capital outlays exceed depreciation in the period.

Capital outlays	\$ 6,999,254	
Depreciation expense	<u>(2,512,984)</u>	
Net Expense Adjustment		4,486,270

In the Statement of Activities, compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, vacation earned was more than the amounts paid by \$1,437. (1,437)

Expenditures relating to contributions made to pension plans were recognized on the modified accrual basis, but are not recognized on the accrual basis. (169,533)

Postemployment benefits other than pensions (OPEB): In governmental funds, OPEB costs are recognized when employer contributions are made. In the Statement of Activities, OPEB costs are recognized on the accrual basis. This year, the difference between OPEB costs and actual employer contributions was: (1,130,085)

In the government-wide financial statements, debt premiums is deferred and amortized over the life of the debt using the straight line method.

Premium on debt issuance	68,338
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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	695,000
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The accompanying notes are an integral part of these financial statements.

KERMAN 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

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 includes additional accumulated interest that was accreted on the District's capital appreciation general obligation bonds.

Change in Net Position of Governmental Activities

\$	(1,014,674)
\$	<u><u>9,461,910</u></u>

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

KERMAN UNIFIED SCHOOL DISTRICT

FIDUCIARY FUNDS

STATEMENT OF NET POSITION

JUNE 30, 2016

	Scholarship Trust	Agency Funds
ASSETS		
Deposits and investments	\$ 1,067,159	\$ 252,526
Receivables	5,097	-
Total Assets	<u>1,072,256</u>	<u>252,526</u>
LIABILITIES		
Due to student groups	-	252,526
Total Liabilities	<u>-</u>	<u>\$ 252,526</u>
NET POSITION		
Restricted for scholarships	<u>1,072,256</u>	
Total Net Position	<u>\$ 1,072,256</u>	

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

KERMAN UNIFIED SCHOOL DISTRICT

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

	Scholarship Trust
ADDITIONS	
Private donations	\$ 4,000
Interest	14,715
Total Additions	<u>18,715</u>
DEDUCTIONS	
Operating expenditures	8,150
Total Deductions	<u>8,150</u>
Change in Net Position	10,565
Net Position - Beginning	<u>1,061,691</u>
Net Position - Ending	<u><u>\$ 1,072,256</u></u>

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

KERMAN UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Kerman Unified School District (the District) was established on July 1, 1983, under the laws of the State of California. The District operates under a locally elected five-member Board form of government and provides educational services to grades K - 12 as mandated by the State and/or Federal agencies. The District operates four elementary schools, one middle school, one high school, and one continuation/opportunity school.

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

Basis of Presentation - Fund Accounting

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

One fund currently defined as special revenue fund in the California State Accounting Manual (CSAM) does not meet the GASB Statement No. 54 special revenue fund definition. Specifically, Fund 20, Special Reserve Fund for Postemployment Benefits, is not substantially composed of restricted or committed revenue sources. While this fund is authorized by statute and will remain open for internal reporting purposes, this fund functions effectively as an extension of the General Fund, and accordingly has been combined with the General Fund for presentation in these audited financial statements.

As a result, the General Fund reflects an increase in assets and fund balance of \$4,090,780 and revenue of \$48,057.

KERMAN UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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.

Special Reserve Capital Outlay Fund The Special Reserve Capital Outlay Fund exists primarily to provide for the accumulation of General Fund monies for capital outlay purposes (*Education Code* Section 42840).

Non-Major Governmental Funds

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

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

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

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

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

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), the 2004 State School Facilities Fund (Proposition 55), or the 2006 State Schools Facilities Fund (Proposition 1D) 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.).

KERMAN UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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

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

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 two classifications: a scholarship trust fund and agency funds. The key distinction between trust and agency funds is that trust funds are subject to a trust agreement that affects the degree of management involvement and the length of time that the resources are held.

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

Basis of Accounting - Measurement Focus

Government-Wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and program revenues for each governmental function, and exclude 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 is self-financing or draws from the general revenues of the District. Eliminations have been made to minimize the double counting of internal activities.

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

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

KERMAN UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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 60 days. However, to achieve comparability of reporting among California districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to State-aid apportionments, the California Department of Education has defined available for districts as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

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

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

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

KERMAN UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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 60 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 county and State investment pools are determined by the program sponsor.

Prepaid Expenditures

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

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.

KERMAN UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Interfund Balances

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

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.

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

However, compensated absences 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 and other long-term obligations are recognized as liabilities in the governmental fund financial statements when due.

Premiums

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

In governmental fund financial statements, debt premiums 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.

KERMAN 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 pension related items.

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

Pensions

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

Fund Balances - Governmental Funds

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

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

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

Committed - amounts that can be used only for specific purposes determined by a formal action of the governing board. The governing board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through resolutions or other action as approved by the governing board. The District 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.

KERMAN 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

In fiscal year 2010-2011, 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 ten percent of General Fund expenditures and other financing uses.

Net Position

Net position represents the difference between assets and liabilities. Net position net of investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. The government-wide financial statements report \$3,931,892 of restricted net position.

Interfund Activity

Transfers between governmental activities in the government-wide financial statements are reported in the same manner as general revenues.

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

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.

KERMAN UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Budgetary Data

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

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

Property Tax

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

Change in Accounting Principles

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

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

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

KERMAN UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

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

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

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

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

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

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

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

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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

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

New Accounting Pronouncements

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

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

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

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

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

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

KERMAN UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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

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

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

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

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

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

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

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

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

KERMAN UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

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

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

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

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

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

KERMAN UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

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

Governmental activities	\$ 24,126,168
Fiduciary funds	1,319,685
Total Deposits and Investments	<u>\$ 25,445,853</u>

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

Cash on hand and in banks	\$ 252,526
Cash in revolving	5,500
Investments	25,187,827
Total Deposits and Investments	<u>\$ 25,445,853</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.

KERMAN UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

General Authorizations

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

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District manages its exposure to interest rate risk by investing in the County Pool and having the Pool purchase a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Segmented Time Distribution

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

Investment Type	Fair Value	12 Months or Less	13 - 24 Months	25 - 60 Months	More Than 60 Months
County Pool	\$ 25,490,079	\$ -	\$ 25,490,079	\$ -	\$ -

KERMAN UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does 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's bank balance of \$317,415 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

NOTE 3 - FAIR VALUE MEASUREMENTS

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

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

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

Level 3 - Unobservable inputs should be developed using the best information available under the circumstances, which might include the District's own data. The District should adjust that data if 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 Fresno 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.

KERMAN UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

NOTE 4 - RECEIVABLES

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

	General Fund	Child Development Fund	Special Reserve Capital Outlay Fund	Non-Major Governmental Funds	Total Governmental Activities	Trust Fund
Federal Government						
Categorical aid	\$ 1,156,041	\$ -	\$ -	\$ 29,971	\$ 1,186,012	\$ -
State Government						
State grants and entitlements	1,134,504	-	-	2,490	1,136,994	-
Local Sources	494,664	5,193	29,138	8,456	537,451	5,097
Total	<u>\$ 2,785,209</u>	<u>\$ 5,193</u>	<u>\$ 29,138</u>	<u>\$ 40,917</u>	<u>\$ 2,860,457</u>	<u>\$ 5,097</u>

NOTE 5 - CAPITAL ASSETS

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

	Restated Balance July 1, 2015	Additions	Balance June 30, 2016
Governmental Activities			
Capital Assets Not Being Depreciated			
Land	\$ 2,015,050	\$ -	\$ 2,015,050
Construction in process	327,073	5,064,915	5,391,988
Total Capital Assets Not Being Depreciated	<u>2,342,123</u>	<u>5,064,915</u>	<u>7,407,038</u>
Capital Assets Being Depreciated			
Land improvements	7,958,843	869,778	8,828,621
Buildings and improvements	60,681,986	559,580	61,241,566
Furniture and equipment	4,292,880	504,981	4,797,861
Total Capital Assets Being Depreciated	<u>72,933,709</u>	<u>1,934,339</u>	<u>74,868,048</u>
Less Accumulated Depreciation			
Land improvements	3,814,921	400,655	4,215,576
Buildings and improvements	22,282,484	1,843,097	24,125,581
Furniture and equipment	3,235,742	269,232	3,504,974
Total Accumulated Depreciation	<u>29,333,147</u>	<u>2,512,984</u>	<u>31,846,131</u>
Governmental Activities Capital Assets, Net	<u>\$ 45,942,685</u>	<u>\$ 4,486,270</u>	<u>\$ 50,428,955</u>

KERMAN UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Depreciation expense was charged to governmental functions as follows:

Governmental Activities

Instruction	\$ 1,155,971
School site administration	50,260
Home-to-school transportation	653,376
Food services	201,039
Data processing services	50,260
All other general administration	75,390
Plant services	326,688
Total Depreciation Expenses, Governmental Activities	<u><u>\$ 2,512,984</u></u>

NOTE 6 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

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

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Major Governmental Funds		
General	\$ 2,745,240	\$ 22,009
Child Development	15,014	116,197
Special Reserve Capital Outlay	-	2,472,008
Total Major Governmental Funds	<u>2,760,254</u>	<u>2,610,214</u>
Non-Major Governmental Fund		
Cafeteria	6,995	157,035
Total All Governmental Funds	<u><u>\$ 2,767,249</u></u>	<u><u>\$ 2,767,249</u></u>

KERMAN UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

The Special Reserve for Capital Outlay Fund owes the General Fund for a temporary cash loan.	\$ 2,000,000
The Special Reserve for Capital Outlay Fund owes the General Fund for reclassified expenditures.	472,008
The Cafeteria Fund owes the General Fund for health and welfare costs.	90,894
The Child Development Fund owes the General Fund for health and welfare costs.	77,614
The Cafeteria Fund owes the General Fund for workers compensation costs.	27,279
The Child Development Fund owes the General Fund for workers compensation costs.	25,043
The Cafeteria Fund owes the General Fund for indirect costs.	24,455
The General Fund owes the Child Development Fund for a contribution.	15,014
The Cafeteria Fund owes the General Fund for miscellaneous costs.	14,407
The Child Development Fund owes the General Fund for indirect costs.	13,516
The General Fund owes the Cafeteria Fund for bad debt expense.	4,095
The General Fund owes the Cafeteria Fund for miscellaneous costs.	2,900
The Child Development Fund owes the General Fund for miscellaneous costs.	24
Total	<u><u>\$ 2,767,249</u></u>

Operating Transfers

Interfund transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Interfund transfers for the year ended June 30, 2016, consisted of the following:

The General Fund transferred to the Special Reserve Capital Outlay Fund for capital expenditures.	\$ 7,000,000
The General Fund transferred to the Child Development Fund as a contribution.	15,014
The General Fund transferred to the Cafeteria Fund for bad dept expense.	4,095
Total	<u><u>\$ 7,019,109</u></u>

NOTE 7 - PREPAID EXPENDITURES

Prepaid expenditures at June 30, 2016, consist of the following:

	General Fund	Non-Major Governmental Funds	Total Governmental Activities
Prepaid goods and services	<u><u>\$ 58,261</u></u>	<u><u>\$ 1,440</u></u>	<u><u>\$ 59,701</u></u>

KERMAN UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

NOTE 8 - ACCOUNTS PAYABLE

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

	General Fund	Child Development Fund	Special Reserve Capital Outlay Fund	Non-Major Governmental Funds	Total Governmental Activities
Vendor payables	\$ 1,187,785	\$ 973,947	\$ 71,990	\$ 65,804	\$ 2,299,526
Deferred payroll	852,643	-	-	-	852,643
Accrued payroll	860,662	-	-	-	860,662
State principal apportionment	327,443	-	-	-	327,443
Total	<u>\$ 3,228,533</u>	<u>\$ 973,947</u>	<u>\$ 71,990</u>	<u>\$ 65,804</u>	<u>\$ 4,340,274</u>

NOTE 9 - UNEARNED REVENUE

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

	General Fund
Federal financial assistance	<u>\$ 106,432</u>

KERMAN UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

NOTE 10 - 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					
2004 - Series 2004					
Current Interest	\$ 250,000	\$ -	\$ 250,000	\$ -	\$ -
Capital Appreciation	675,955	78,133	-	754,088	-
2004 - Series 2006B					
Capital Appreciation	2,983,071	150,511	155,000	2,978,582	160,000
2004 - Series 2007C					
Current Interest	395,000	-	95,000	300,000	110,000
Capital Appreciation	2,575,519	129,020	-	2,704,539	-
2008 - Series 2009	9,207,251	657,010	135,000	9,729,261	165,000
2015 Refunding	4,140,000	-	60,000	4,080,000	305,000
Bond Premium	1,148,941	-	68,338	1,080,603	68,337
Compensated absences - net	73,622	1,437	-	75,059	-
Other postemployment benefits	1,797,080	1,528,926	398,841	2,927,165	-
Total	<u>\$ 23,246,439</u>	<u>\$ 2,545,037</u>	<u>\$ 1,162,179</u>	<u>\$ 24,629,297</u>	<u>\$ 808,337</u>

Payments on the general obligation bonds are made by the Bond Interest and Redemption Fund with local revenues. The compensated absences and other postemployment benefits will be paid by the fund for which the employee worked.

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate %	Original Issue	Bonds Outstanding July 1, 2015	Issued/ Accreted Interest	Redeemed	Bonds Outstanding June 30, 2016
2004	8/1/15	2.125-4.5	\$ 5,790,000	\$ 250,000	\$ -	\$ 250,000	\$ -
2004	8/1/29	5.38-5.53	212,954	675,955	78,133	-	754,088
2006	8/1/30	4.410-4.92	1,063,376	2,983,071	150,511	155,000	2,978,582
2007	8/1/18	3.54-3.92	715,000	395,000	-	95,000	300,000
2007	2/1/32	4.36-4.43	1,711,016	2,575,519	129,020	-	2,704,539
2009	8/1/44	3.78-7.42	6,254,805	9,207,251	657,010	135,000	9,729,261
2015	8/1/25	3.06	4,140,000	4,140,000	-	60,000	4,080,000
Total				<u>\$ 20,226,796</u>	<u>\$ 1,014,674</u>	<u>\$ 695,000</u>	<u>\$ 20,546,470</u>

KERMAN UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

Debt Service Requirements to Maturity

The 2004 - Series 2004 Capital Appreciation Bonds mature as follows:

Maturity	Final Maturity	Accreted Obligation	Unaccreted Interest
2027	\$ 630,000	\$ 210,924	\$ 419,076
2028	655,000	196,500	458,500
2029	680,000	182,784	497,216
2030	680,000	163,880	516,120
Total	<u>\$ 2,645,000</u>	<u>\$ 754,088</u>	<u>\$ 1,890,912</u>

The 2004 - Series 2006B Capital Appreciation Bonds mature as follows:

Maturity	Final Maturity	Accreted Obligation	Unaccreted Interest
2017	\$ 160,000	\$ 160,000	\$ -
2018	175,000	167,335	7,665
2019	215,000	196,424	18,576
2020	225,000	196,200	28,800
2021	235,000	195,473	39,527
2022-2023	505,000	390,842	114,158
2031	3,635,000	1,672,308	1,962,692
Total	<u>\$ 5,150,000</u>	<u>\$ 2,978,582</u>	<u>\$ 2,171,418</u>

The 2004 - Series 2007C Current Interest Bonds mature as follows:

Maturity	Principal	Interest	Total
2017	\$ 110,000	\$ 12,000	\$ 122,000
2018	125,000	7,600	132,600
2019	65,000	2,600	67,600
Total	<u>\$ 300,000</u>	<u>\$ 22,200</u>	<u>\$ 322,200</u>

KERMAN UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

The 2004 - Series 2007C Capital Appreciation Bonds mature as follows:

Maturity	Final Maturity	Accreted Obligation	Unaccreted Interest
2027	\$ 265,000	\$ 162,657	\$ 102,343
2028	285,000	166,611	118,389
2029	310,000	172,608	137,392
2030	335,000	177,617	157,383
2031	355,000	179,275	175,725
2032	3,895,000	1,845,771	2,049,229
Total	<u>\$ 5,445,000</u>	<u>\$ 2,704,539</u>	<u>\$ 2,740,461</u>

The 2004 - Series 2006B Capital Appreciation Bonds mature as follows:

Maturity	Final Maturity	Accreted Obligation	Unaccreted Interest
2017	\$ 165,000	\$ 165,000	\$ -
2018	205,000	194,955	10,045
2019	290,000	261,058	28,942
2020	380,000	322,620	57,380
2021	405,000	323,433	81,567
2022-2026	2,435,000	1,583,101	851,899
2027-2031	1,755,000	791,431	963,569
2032-2037	7,205,000	2,049,223	5,155,777
2037-2041	13,730,000	2,427,057	11,302,943
2042-2045	13,665,000	1,611,383	12,053,617
Total	<u>\$ 40,235,000</u>	<u>\$ 9,729,261</u>	<u>\$ 30,505,739</u>

The 2015 Refunding Bonds mature as follows:

Maturity	Principal	Interest	Total
2017	\$ 305,000	\$ 120,181	\$ 425,181
2018	325,000	110,542	435,542
2019	325,000	100,597	425,597
2020	350,000	90,270	440,270
2021	380,000	79,101	459,101
2022-2026	2,395,000	194,083	2,589,083
Total	<u>\$ 4,080,000</u>	<u>\$ 694,774</u>	<u>\$ 4,774,774</u>

KERMAN UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Compensated Absences

The long-term portion of compensated absences for the District at June 30, 2016, amounted to \$75,059.

Other Postemployment Benefits (OPEB) Obligation

The District's annual required contribution for the year ended June 30, 2016, was \$1,448,057, and contributions made by the District during the year were \$222,805. Interest on the net OPEB obligation and adjustments to the annual required contribution were \$80,869 and \$(176,036), respectively, which resulted in an increase to the net OPEB obligation of \$1,130,085. As of June 30, 2016, the net OPEB obligation was \$2,927,165. See Note 12 for additional information regarding the OPEB obligation and the postemployment benefits plan.

NOTE 11 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Child Development Fund	Special Reserve Capital Outlay Fund	Non-Major Governmental Funds	Total Governmental Funds
Nonspendable					
Revolving cash	\$ 5,500	\$ -	\$ -	\$ -	\$ 5,500
Stores inventory	66,645	-	-	21,730	88,375
Prepaid expenditures	58,261	-	-	1,440	59,701
Total Reserved	<u>130,406</u>	<u>-</u>	<u>-</u>	<u>23,170</u>	<u>153,576</u>
Restricted					
Legally restricted					
programs	1,537,619	75,387	-	-	1,613,006
Food service	-	-	-	404,214	404,214
Capital projects	-	-	-	901,233	901,233
Debt service	-	-	-	990,270	990,270
Total Restricted	<u>1,537,619</u>	<u>75,387</u>	<u>-</u>	<u>2,295,717</u>	<u>3,908,723</u>
Assigned					
Other postemployment					
benefits	4,090,781	-	-	-	4,090,781
Construction needs	-	-	9,451,699	-	9,451,699
Total Assigned	<u>4,090,781</u>	<u>-</u>	<u>9,451,699</u>	<u>-</u>	<u>13,542,480</u>
Unassigned					
Unassigned	5,083,216	-	-	-	5,083,216
Total	<u>\$ 10,842,022</u>	<u>\$ 75,387</u>	<u>\$ 9,451,699</u>	<u>\$ 2,318,887</u>	<u>\$ 22,687,995</u>

KERMAN UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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 healthcare plan administered by the Kerman Unified School District. The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Membership of the Plan consists of 21 retirees and beneficiaries currently receiving benefits and 399 active plan members.

Contribution Information

The contribution requirements of plan members and the District are established and may be amended by the District and the Kerman Unified Teachers Association (KUTA), 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 \$222,805 to the plan, all of which was used for current premiums (approximately 75 percent of total premiums). Plan members receiving benefits contributed \$76,326, or approximately 25 percent of the total premiums.

Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost 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	\$ 1,448,057
Interest on net OPEB obligation	80,869
Adjustment to annual required contribution	<u>(176,036)</u>
Annual OPEB cost	1,352,890
Contributions made	<u>(222,805)</u>
Increase in net OPEB obligation	1,130,085
Net OPEB obligation, beginning of year	<u>1,797,080</u>
Net OPEB obligation, end of year	<u><u>\$ 2,927,165</u></u>

KERMAN UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

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 Contribution	Percentage Contributed	Net OPEB Obligation
2016	\$ 1,352,890	\$ 222,805	16.47%	\$ 2,927,165
2015	803,949	361,097	44.92%	1,797,080
2014	832,040	404,483	48.61%	1,354,228

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 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, 2015	\$ -	\$ 9,425,242	\$ 9,425,242	0.00%	\$ 26,407,461	35.69%

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

Actuarial Methods and Assumptions

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

KERMAN UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

In the September 1, 2015, actuarial valuation, the projected unit credit 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. Healthcare cost trend rates were four percent. The cost trend rate used for the Dental and Vision programs was also four percent. The UAAL is being amortized at a level dollar method. The remaining amortization period at July 1, 2015, was 30 years.

NOTE 13 - RISK MANAGEMENT

Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2016, the District contracted with Organization of Self Insured Schools (OSS) 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 Fresno County Self Insurance Group (FCSIG), an insurance purchasing pool. The intent of the Fresno County Self Insurance Group is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Fresno County Self Insurance Group. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all districts in the Fresno County Self Insurance Group. Each participant pays its workers' compensation premium based on its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage. A participant will then either receive money from or be required to contribute to the "equity-pooling fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the Fresno County Self Insurance Group. Participation in the Fresno County Self Insurance Group is limited to districts that can meet the Fresno County Self Insurance Group's selection criteria.

Employee Medical Benefits

The District has contracted with the Central Valley Trust (CVT) to provide employee health benefits. CVT is a shared risk pool comprised of other member Districts. Rates are set through an annual calculation process. The District pays a monthly contribution, which is placed in a common fund from which claim payments are made for all participating districts. Claims are paid for all participants regardless of claims flow. The Board of Directors has a right to return monies to a district subsequent to the settlement of all expenses and claims if a district withdraws from the pool.

KERMAN UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

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 the California State Teachers' Retirement System (CalSTRS) and classified employees are members of the California Public Employees' Retirement System (CalPERS).

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

Pension Plan	Collective Net Pension Liability	Collective Deferred Outflows of Resources	Collective Deferred Inflows of Resources	Collective Pension Expense
CalSTRS	\$ 26,174,849	\$ 5,083,266	\$ 4,633,396	\$ 2,167,899
CalPERS	8,297,362	2,935,158	2,156,675	796,880
Total	<u>\$ 34,472,211</u>	<u>\$ 8,018,424</u>	<u>\$ 6,790,071</u>	<u>\$ 2,964,779</u>

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

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

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

Benefits Provided

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

KERMAN UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

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		
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	9.20%	8.56%
Required employer contribution rate	10.73%	10.73%
Required state contribution rate	7.12589%	7.12589%

Contributions

Required member, District and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2016, are presented above and the District's total contributions were \$2,086,201.

KERMAN 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	\$ 26,174,849
State's proportionate share of the net pension liability associated with the District	13,843,609
Total	<u>\$ 40,018,458</u>

The net pension liability was measured as of June 30, 2015. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. The District's proportionate share for the measurement period June 30, 2015 and June 30, 2014, respectively was 0.0389 percent and 0.0374 percent, resulting in a net increase in the proportionate share of 0.0015 percent.

For the year ended June 30, 2016, the District recognized pension expense of \$2,167,899. In addition, the District recognized pension expense and revenue of \$1,072,343 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	\$ 2,086,201	\$ -
Net change in proportionate share of net pension liability	934,732	-
Difference between projected and actual earnings on pension plan investments	2,062,333	4,196,008
Differences between expected and actual experience in the measurement of the total pension liability	-	437,388
Total	<u>\$ 5,083,266</u>	<u>\$ 4,633,396</u>

KERMAN UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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	\$ (883,086)
2018	(883,086)
2019	(883,086)
2020	515,583
Total	<u>\$ (2,133,675)</u>

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability and the 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	\$ 82,891
2018	82,891
2019	82,891
2020	82,891
2021	82,891
Thereafter	82,889
Total	<u>\$ 497,344</u>

KERMAN 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 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 ten-year geometric real rates of return and the assumed asset allocation for each major asset class used as input to develop the actuarial investment rate of return are summarized in the following table:

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

KERMAN 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:

Discount Rate	Net Pension Liability
1% decrease (6.60%)	\$ 39,521,984
Current discount rate (7.60%)	\$ 26,174,849
1% increase (8.60%)	\$ 15,082,302

California Public Employees Retirement System (CalPERS)

Plan Description

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

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

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

KERMAN 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 52 for members hired on or after January 1, 2013), and has at least five years of credited service. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

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

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

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2016, are presented above and the total District contributions were \$825,116.

KERMAN 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 \$8,297,362. The net pension liability was measured as of June 30, 2015. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2015 and June 30, 2014, respectively was 0.0563 percent and 0.0539 percent, resulting in a net increase in the proportionate share of 0.0024 percent.

For the year ended June 30, 2016, the District recognized pension expense of \$796,880. 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	\$ 825,116	\$ -
Net change in proportionate share of net pension liability	273,082	-
Difference between projected and actual earnings on pension plan investments	1,362,754	1,646,862
Differences between expected and actual experience in the measurement of the total pension liability	474,206	-
Changes of assumptions	-	509,813
Total	<u>\$ 2,935,158</u>	<u>\$ 2,156,675</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	\$ (208,266)
2018	(208,266)
2019	(208,266)
2020	340,690
Total	<u>\$ (284,108)</u>

KERMAN UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2017	\$ 81,888
2018	81,888
2019	73,699
Total	<u>\$ 237,475</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.

KERMAN 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:

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

Discount Rate

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

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

Discount rate	Net Pension Liability
1% decrease (6.65%)	\$ 13,504,649
Current discount rate (7.65%)	\$ 8,297,362
1% increase (8.65%)	\$ 3,967,156

KERMAN 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 \$1,155,103 (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.

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 not currently a party to any legal proceedings.

Construction Commitments

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

Capital Projects	Remaining Construction Commitment	Expected Date of Completion
Liberty multipurpose room	\$ 945,158	September 2016
Kerman Middle School portable classrooms	198,081	September 2016
Kerman High School quad-gym project	282,000	September 2016
Total	<u>\$ 1,425,239</u>	

KERMAN UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE 16 - PARTICIPATION IN JOINT POWERS AUTHORITIES

The District is a member of the Central Valley Trust (CVT), the Fresno County Self Insurance Group (FCSIG), and the Organization of Self Insured Schools (OSS) joint powers authorities (JPAs). The District pays an annual premium to the applicable entity for its health and welfare, workers' compensation, and property and liability coverage. Payments are made directly to the JPAs. 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 no appointed board members to the governing board of Central Valley Trust.

During the year ended June 30, 2016, the District made payment of \$4,685,005 to the Central Valley Trust for health and welfare benefits.

The District has appointed one member to the governing board of Fresno County Self Insurance Group.

During the year ended June 30, 2016, the District made payment of \$579,337 to the Fresno County Self Insurance Group for worker's compensation insurance.

The District has appointed one member to the governing board of Organization of Self Insured Schools.

During the year ended June 30, 2016, the District made payment of \$326,685 to the Organization of Self Insured Schools for property and liability insurance.

NOTE 17 - RESTATEMENT OF PRIOR YEAR NET POSITION

Capital assets were restated because the District contracted with a third party company to revalue the assets held by the District. As a result, the effect on the current fiscal year is as follows:

Statement of Net Position

Net Position - Beginning	\$ 19,049,094
Restatement for capital asset revaluation	(13,267,209)
Net Position - Beginning as Restated	<u>\$ 5,781,885</u>

REQUIRED SUPPLEMENTARY INFORMATION

KERMAN UNIFIED SCHOOL DISTRICT

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

	Budgeted Amounts		Actual	Variances - Favorable (Unfavorable)
	Original	Final		Final to Actual
REVENUES				
Local Control Funding Formula	\$ 45,492,022	\$ 46,227,805	\$ 46,076,983	\$ (150,822)
Federal sources	3,589,605	3,548,654	3,202,300	(346,354)
Other State sources	1,468,308	4,844,639	5,630,385	785,746
Other local sources	1,939,540	2,273,420	3,104,992	831,572
Total Revenues ¹	52,489,475	56,894,518	58,014,660	1,120,142
EXPENDITURES				
Current				
Certificated salaries	19,182,886	19,502,617	19,542,889	(40,272)
Classified salaries	6,694,154	6,671,791	6,712,910	(41,119)
Employee benefits	9,293,439	10,211,694	9,720,381	491,313
Books and supplies	4,960,050	4,607,597	3,531,683	1,075,914
Services and operating expenditures	5,523,257	6,944,984	5,242,875	1,702,109
Other outgo	70,998	(57,334)	(70,948)	13,614
Capital outlay	4,790,600	4,931,217	5,055,179	(123,962)
Total Expenditures ¹	50,515,384	52,812,566	49,734,969	3,077,597
Excess of Revenues Over Expenditures	1,974,091	4,081,952	8,279,691	4,197,739
Other Financing Sources (Uses)				
Transfers in	4,167	-	-	-
Transfers out	(3,000,000)	(5,900,000)	(7,019,109)	(1,119,109)
Net Financing Sources (Uses)	(2,995,833)	(5,900,000)	(7,019,109)	(1,119,109)
NET CHANGE IN FUND BALANCES	(1,021,742)	(1,818,048)	1,260,582	3,078,630
Fund Balance - Beginning	9,581,440	9,581,440	9,581,440	-
Fund Balance - Ending	\$ 8,559,698	\$ 7,763,392	\$ 10,842,022	\$ 3,078,630

¹ Due to the consolidation of Fund 20, Special Reserve Fund for Postemployment Benefits, for reporting purposes into the General Fund, additional revenues and expenditures pertaining to this fund are included in the actual revenues and expenditures, however, are not included in the original and final General Fund budgets.

See accompanying notes to required supplementary information.

KERMAN UNIFIED SCHOOL DISTRICT

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

	Budgeted Amounts			Variances - Favorable (Unfavorable)
	Original	Final	Actual	Final to Actual
REVENUES				
Other State sources	\$ 948,317	\$ 1,019,463	\$ 778,852	\$ (240,611)
Other local sources	2,132	4,673	13,164	8,491
Total Revenues	<u>950,449</u>	<u>1,024,136</u>	<u>792,016</u>	<u>(232,120)</u>
EXPENDITURES				
Current				
Certificated salaries	380,771	370,081	295,220	74,861
Classified salaries	275,816	318,322	219,418	98,904
Employee benefits	221,839	242,210	195,119	47,091
Books and supplies	23,031	42,437	30,793	11,644
Services and operating expenditures	8,358	10,452	6,939	3,513
Other outgo	38,502	38,502	48,180	(9,678)
Total Expenditures	<u>948,317</u>	<u>1,022,004</u>	<u>795,669</u>	<u>226,335</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>2,132</u>	<u>2,132</u>	<u>(3,653)</u>	<u>(458,455)</u>
Other Financing Sources				
Transfers in	-	-	15,014	15,014
Total Financing Sources	<u>-</u>	<u>-</u>	<u>15,014</u>	<u>15,014</u>
NET CHANGE IN FUND BALANCES	<u>2,132</u>	<u>2,132</u>	<u>11,361</u>	<u>(443,441)</u>
Fund Balance - Beginning	<u>64,026</u>	<u>64,026</u>	<u>64,026</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 66,158</u>	<u>\$ 66,158</u>	<u>\$ 75,387</u>	<u>\$ 9,229</u>

See accompanying notes to required supplementary information.

KERMAN UNIFIED SCHOOL DISTRICT

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - 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)
Sept. 1, 2015	\$ -	\$ 9,425,242	\$ 9,425,242	0.00%	\$ 26,407,461	35.69%
Sept. 1, 2013	\$ -	\$ 6,295,714	\$ 6,295,714	0.00%	\$ 24,655,136	25.54%
March 1, 2009	\$ -	\$ 4,433,939	\$ 4,433,939	0.00%	Not Available ¹	Not Available ¹

¹ The information was not presented by the prior auditing firm within the auditor's report.

See accompanying notes to required supplementary information.

KERMAN UNIFIED SCHOOL DISTRICT

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

	2016	2015
CalSTRS		
District's proportion of the net pension liability (asset)	0.0389%	0.0374%
District's proportionate share of the net pension liability (asset)	\$ 26,174,849	\$ 21,844,635
State's proportionate share of the net pension liability (asset) associated with the District	13,843,609	13,190,734
Total	\$ 40,018,458	\$ 35,035,369
District's covered - employee payroll	\$ 18,459,899	\$ 16,871,188
District's proportionate share of the net pension liability (asset) as a percentage of its covered - employee payroll	141.79%	129.48%
Plan fiduciary net position as a percentage of the total pension liability	74%	77%
CalPERS		
District's proportion of the net pension liability (asset)	0.0563%	0.0539%
District's proportionate share of the net pension liability (asset)	\$ 8,297,362	\$ 6,117,080
District's covered - employee payroll	\$ 6,195,463	\$ 6,373,606
District's proportionate share of the net pension liability (asset) as a percentage of its covered - employee payroll	133.93%	95.98%
Plan fiduciary net position as a percentage of the total pension liability	79%	83%

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

See accompanying notes to required supplementary information.

KERMAN UNIFIED SCHOOL DISTRICT

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

	2016	2015
CalSTRS		
Contractually required contribution	\$ 2,086,201	\$ 1,639,219
Contributions in relation to the contractually required contribution	2,086,201	1,639,219
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered - employee payroll	<u>\$ 19,442,693</u>	<u>\$ 18,459,673</u>
Contributions as a percentage of covered - employee payroll	<u>10.73%</u>	<u>8.88%</u>
CalPERS		
Contractually required contribution	\$ 825,116	\$ 729,268
Contributions in relation to the contractually required contribution	825,116	729,268
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered - employee payroll	<u>\$ 6,964,767</u>	<u>\$ 6,195,463</u>
Contributions as a percentage of covered - employee payroll	<u>11.847%</u>	<u>11.771%</u>

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

See accompanying notes to required supplementary information.

KERMAN UNIFIED SCHOOL DISTRICT

NOTES 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 budget to actual results of operations.

Schedule of Other Postemployment Benefits (OPEB) Funding Progress

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

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

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

Schedule of District Contributions

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

NOTE 2 - CHANGES IN BENEFIT TERMS AND ASSUMPTIONS

Changes in Benefit Terms

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

Changes in Assumptions

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

SUPPLEMENTARY INFORMATION

KERMAN UNIFIED SCHOOL DISTRICT

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

Federal Grantor/Pass-Through Grantor/Program	Federal Catalog Number	Pass-Through Identification Number	Program Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed Through California Department of Education:			
No Child Left Behind Act			
Title I - Part A Programs			
Title I - Part A, Basic Grants	84.010	14329	\$ 1,476,167
Title I - Part A, Program Improvement	84.010	14955	174,521
Subtotal Title I - Part A Programs			<u>1,650,688</u>
Title I - Part C, Migrant Education	84.011	14326	38,840
Title I, Part C, Migrant Education-Summer	84.011	14326	38,787
Title II - Improving Teacher Quality	84.367	14341	175,007
Title III - Limited English Proficiency	84.365	14346	79,718
Title III - Immigrant Education	84.365	15146	7,281
Vocational Education - Technology Secondary II	84.048	14894	48,056
Special Education Cluster			
IDEA - Basic Local Assistance	84.027	13379	866,631
IDEA - Basic Local Assistance - Private School ISP	84.027	10115	1,737
IDEA - Part B, Preschool Grants	84.173	13430	28,616
IDEA - Part B, Preschool Local Entitlement	84.027A	13682	48,665
Subtotal Special Education Cluster			<u>945,649</u>
Total U.S. Department of Education			<u>2,984,026</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed Through California Department of Health Care Services:			
Medicaid Programs:			
Medi-Cal Billing Option	93.778	10013	89,752
Medi-Cal Administrative Activities	93.778	10060	36,895
Subtotal Medicaid Programs			<u>126,647</u>
Total U.S. Department of Health and Human Services			<u>126,647</u>

See accompanying note to supplementary information.

KERMAN UNIFIED SCHOOL DISTRICT**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, Continued
FOR THE YEAR ENDED JUNE 30, 2016**

<u>Federal Grantor/Pass-Through Grantor/Program</u>	<u>Federal Catalog Number</u>	<u>Pass-Through Identification Number</u>	<u>Program Expenditures</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed Through California Department of Education:			
Fresh Fruit and Vegetable Program	10.582	14968	\$ 91,627
Child Nutrition Cluster			
National School Lunch	10.555	13391	1,497,743
Especially Needy Breakfast	10.553	13526	546,979
Meals Supplements - Snacks	10.555	13391	108,830
Summer Food Program	10.559	13004	90,792
Food Distribution - Commodities	10.555	13391	53,364
Subtotal Child Nutrition Cluster			<u>2,297,708</u>
Total U.S. Department of Agriculture			<u>2,389,335</u>
Total Expenditures of Federal Awards			<u>\$ 5,500,008</u>

See accompanying note to supplementary information.

KERMAN UNIFIED SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2016

ORGANIZATION

The Kerman Unified School District was established on July 1, 1983, and consists of an area comprising 146 square miles located in Fresno County. The District operates four elementary schools, one middle school, one high school, and one continuation/opportunity school. There were no boundary changes during the year.

GOVERNING BOARD

MEMBER	OFFICE	TERM EXPIRES
Daniel Babshoff	President	2016
Vicki A. Blair	Vice President	2018
Maria Cantu	Clerk	2016
Efrain Guizar	Member	2018
Darrell Yates	Member	2018

ADMINISTRATION

Robert Frausto	Superintendent
Mark Ruiz	Assistant Superintendent Personnel
Kraig Magnussen	Assistant Superintendent/Chief Business Official
Peggy Rodgers	Director of Fiscal Services

See accompanying note to supplementary information.

KERMAN UNIFIED SCHOOL DISTRICT

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

	Second Period Report	Annual Report
Regular ADA		
Transitional kindergarten through third	1,591.09	1,590.76
Fourth through sixth	1,195.01	1,194.74
Seventh and eighth	710.41	709.71
Ninth through twelfth	1,393.22	1,387.16
Total Regular ADA	<u>4,889.73</u>	<u>4,882.37</u>

See accompanying note to supplementary information.

KERMAN UNIFIED SCHOOL DISTRICT

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

Grade Level	1986-1987 Minutes Requirement	2015-2016 Actual Minutes	Number of Days		Status
			Traditional Calendar	Multitrack Calendar	
Kindergarten	36,000	59,570	180	N/A	Complied
Grades 1 - 3	50,400				
Grade 1		59,570	180	N/A	Complied
Grade 2		59,570	180	N/A	Complied
Grade 3		59,570	180	N/A	Complied
Grades 4 - 6	54,000				
Grade 4		59,570	180	N/A	Complied
Grade 5		59,570	180	N/A	Complied
Grade 6		59,570	180	N/A	Complied
Grades 7 - 8	54,000				
Grade 7		63,984	180	N/A	Complied
Grade 8		63,984	180	N/A	Complied
Grades 9 - 12	64,800				
Grade 9		65,730	180	N/A	Complied
Grade 10		65,730	180	N/A	Complied
Grade 11		65,730	180	N/A	Complied
Grade 12		65,730	180	N/A	Complied

N/A - Not Applicable

See accompanying note to supplementary information.

KERMAN UNIFIED SCHOOL DISTRICT

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

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

	General Fund	Special Reserve Capital Outlay Fund	Non-Major Governmental Funds
FUND BALANCE			
Balance, June 30, 2016, Unaudited Actuals	\$ 10,474,226	\$ 9,201,839	\$ 2,308,799
Increase in:			
Accounts payable (Local Control Funding Formula)	(327,443)	-	-
Decrease in:			
Accounts payable	695,239	249,860	10,088
Balance, June 30, 2016, Audited Financial Statement	<u>\$ 10,842,022</u>	<u>\$ 9,451,699</u>	<u>\$ 2,318,887</u>

See accompanying note to supplementary information.

KERMAN UNIFIED SCHOOL DISTRICT

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

	(Budget) 2017 ^{1, 4}	2016 ⁴	2015 ⁴	2014 ⁴
GENERAL FUND				
Revenues and other sources ³	\$ 60,260,712	\$ 57,966,603	\$ 46,847,828	\$ 40,170,756
Expenditures	55,715,361	49,734,969	43,750,760	36,049,631
Other uses and transfers out	4,500,000	8,019,109	6,100,484	3,000,000
Total Expenditures and Other Uses ³	60,215,361	57,754,078	49,851,244	39,049,631
INCREASE/(DECREASE) IN FUND BALANCE	\$ 45,351	\$ 212,525	\$ (3,003,416)	\$ 1,121,125
PRIOR PERIOD RESTATEMENT ⁵	\$ -	\$ -	\$ (684,001)	\$ -
ENDING FUND BALANCE	\$ 6,796,593	\$ 6,751,242	\$ 6,538,717	\$ 10,226,134
AVAILABLE RESERVES ²	\$ 4,780,475	\$ 5,083,216	\$ 5,270,352	\$ 3,938,044
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO	7.9%	8.8%	10.6%	10.1%
LONG-TERM OBLIGATIONS	Not Available	\$ 24,629,297	\$ 23,246,439	\$ 22,271,230
AVERAGE DAILY ATTENDANCE AT P-2	4,954	4,890	4,833	4,839

The General Fund balance has decreased by \$3,474,892 over the past two years. The fiscal year 2016-2017 budget projects an increase of \$45,351 (0.7 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 two of the past three years and anticipates incurring an operating surplus during the 2016-2017 fiscal year. Total long-term obligations have increased by \$2,358,067 over the past two years mainly due to accreted interest on Capital Appreciation General Obligation Bonds and increased Other Postemployment Benefits.

Average daily attendance has increased by 51 over the past two years. Growth of 64 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 unassigned fund balance contained within the General Fund.

³ On behalf payments have been excluded from revenues and expenditures in this schedule for the 2015 and 2014 fiscal years.

⁴ General Fund amounts do not include activity related to the consolidation of the Special Reserve for Postemployment Benefits Fund as required by GASB Statement No. 54.

⁵ The beginning fund balance in the General Fund was restated in 2015.

See accompanying note to supplementary information.

KERMAN UNIFIED SCHOOL DISTRICT**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2016**

	Cafeteria Fund	Building Fund	Capital Facilities Fund
ASSETS			
Deposits and investments	\$ 550,511	\$ 440	\$ 922,539
Receivables	34,754	-	2,975
Due from other funds	6,995	-	-
Prepaid expenses	1,440	-	-
Stores inventories	21,730	-	-
Total Assets	\$ 615,430	\$ 440	\$ 925,514
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 31,011	\$ 439	\$ 24,316
Due to other funds	157,035	-	-
Total Liabilities	188,046	439	24,316
Fund Balances:			
Nonspendable	23,170	-	-
Restricted	404,214	1	901,198
Total Fund Balances	427,384	1	901,198
Total Liabilities and Fund Balances	\$ 615,430	\$ 440	\$ 925,514

See accompanying note to supplementary information.

County School Facilities Fund	Bond Interest and Redemption Fund	Total Non-Major Governmental Funds
\$ 10,038	\$ 987,116	\$ 2,470,644
34	3,154	40,917
-	-	6,995
-	-	1,440
-	-	21,730
<u>\$ 10,072</u>	<u>\$ 990,270</u>	<u>\$ 2,541,726</u>

\$ 10,038	\$ -	\$ 65,804
-	-	157,035
<u>10,038</u>	<u>-</u>	<u>222,839</u>
-	-	23,170
<u>34</u>	<u>990,270</u>	<u>2,295,717</u>
<u>34</u>	<u>990,270</u>	<u>2,318,887</u>
<u>\$ 10,072</u>	<u>\$ 990,270</u>	<u>\$ 2,541,726</u>

KERMAN UNIFIED SCHOOL DISTRICT

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

	Cafeteria Fund	Building Fund	Capital Facilities Fund
REVENUES			
Federal sources	\$ 2,244,344	\$ -	\$ -
Other State sources	180,519	-	-
Other local sources	407,614	501	438,833
Total Revenues	2,832,477	501	438,833
EXPENDITURES			
Current			
Pupil services:			
Food services	2,670,250	-	-
Administration:			
All other administration	128,859	-	-
Plant services	17,241	-	130,797
Facility acquisition and construction	-	81,806	332,701
Debt service			
Principal	-	-	-
Interest and other	-	-	-
Total Expenditures	2,816,350	81,806	463,498
Excess (Deficiency) of Revenues			
Over Expenditures	16,127	(81,305)	(24,665)
Other Financing Sources			
Transfers in	4,095	-	-
Total Financing Sources	4,095	-	-
NET CHANGE IN FUND BALANCES	20,222	(81,305)	(24,665)
Fund Balance - Beginning	407,162	81,306	925,863
Fund Balance - Ending	\$ 427,384	\$ 1	\$ 901,198

See accompanying note to supplementary information.

County School Facilities Fund	Bond Interest and Redemption Fund	Total Non-Major Governmental Funds
\$ -	\$ -	\$ 2,244,344
-	7,598	188,117
138	983,244	1,830,330
<u>138</u>	<u>990,842</u>	<u>4,262,791</u>
-	-	2,670,250
-	-	128,859
-	-	148,038
10,038	-	424,545
-	695,000	695,000
-	127,054	127,054
<u>10,038</u>	<u>822,054</u>	<u>4,193,746</u>
<u>(9,900)</u>	<u>168,788</u>	<u>69,045</u>
-	-	4,095
-	-	4,095
<u>(9,900)</u>	<u>168,788</u>	<u>73,140</u>
9,934	821,482	2,245,747
<u>\$ 34</u>	<u>\$ 990,270</u>	<u>\$ 2,318,887</u>

KERMAN UNIFIED SCHOOL DISTRICT

**NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2014**

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

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

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances, and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amount consists of fair market value of commodities that are not reported in the financial statements.

	CFDA Number	Amount
Total Federal Revenues From the Statement of Revenues, Expenditures, and Changes in Fund Balances:		\$ 5,446,644
Reconciling item:		
Food Distribution - Commodities	10.555	53,364
Total Schedule of Expenditures of Federal Awards		<u>\$ 5,500,008</u>

Local Education Agency Organization Structure

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

Schedule of Average Daily Attendance (ADA)

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

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 1986-1987 requirements as required by *Education Code* Section 46201.

KERMAN UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2016

Reconciliation of Annual Financial and Budget Report With Audited Financial Statements

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

Schedule of Financial Trends and Analysis

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

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

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

INDEPENDENT AUDITOR'S REPORTS



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

Governing Board
Kerman Unified School District
Kerman, 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 Kerman 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 Kerman Unified School District's basic financial statements, and have issued our report thereon dated December 13, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Kerman 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 Kerman Unified School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Kerman Unified School District's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Kerman 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 Kerman Unified School District in a separate letter dated December 13, 2016.

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.

Vannink, Trine, Day & Co, LLP

Fresno, California
December 13, 2016



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

Governing Board
Kerman Unified School District
Kerman, California

Report on Compliance for Each Major Federal Program

We have audited Kerman Unified School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Kerman Unified School District's (the District) major Federal programs for the year ended June 30, 2016. Kerman 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 Kerman 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 Kerman 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 Kerman Unified School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Kerman 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 Kerman 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 Kerman 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 Kerman 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.

Vannink, Trine, Day & Co, LLP

Fresno, California
December 13, 2016



INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
Kerman Unified School District
Kerman, California

Report on State Compliance

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

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the Kerman 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 Kerman 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 Kerman Unified School District's compliance with those requirements.

Basis for Qualified Opinion on Attendance Accounting and Reporting and Unduplicated Local Control Funding Formula Pupil Count

As described in the accompanying Schedule of Findings and Questioned Costs as items 2016-001 and 2016-002, Kerman Unified School District did not comply with requirements regarding Attendance Accounting and Reporting and Unduplicated Local Control Funding Formula Pupil Count. Compliance with such requirements is necessary, in our opinion, for Kerman Unified School District to comply with the requirements applicable to that program.

Qualified Opinion on Attendance Accounting and Reporting and Unduplicated Local Control Funding Formula Pupil Count

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

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

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

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

We did not perform procedures for Independent Study because the independent study ADA was under the level that requires testing.

We did not perform Continuation Education procedures because the ADA was under the level that requires testing.

The District did not have any employees retire under the CalSTRS Early Retirement Incentive program; therefore, testing was not required.

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

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

We did not perform procedures for the General Requirements of the After School Education and Safety Program because the grantee, Fresno County Office of Education, administers the program and has its own audit.

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

The District does not have a course based independent study program; therefore, we did not perform any procedures related to course based independent study

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

Vannink, Trine, Day & Co, LLP

Fresno, California
December 13, 2016

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

KERMAN 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>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

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

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
<u>84.010</u>	<u>Title I - Part A Programs</u>

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

STATE AWARDS

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

<u>Name of Program</u>
<u>Attendance Accounting and Reporting</u>
<u>Unduplicated Local Control Funding</u>
<u>Formula Pupil Count</u>

KERMAN UNIFIED SCHOOL DISTRICT

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016**

None reported.

KERMAN UNIFIED SCHOOL DISTRICT

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

None reported.

KERMAN UNIFIED SCHOOL DISTRICT

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

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

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
10000	Attendance
40000	State Compliance

2016-001 10000

Attendance Accounting and Reporting

Criteria

According to *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2012-2013*, prescribed in the *California Code of Regulations* and published by the Education Audit Appeals Panel, attendance reports must be amended for any change in ADA. [*Education Code* Sections 41341 (a)(1) and 14503 (a)]

Condition

During our audit of the Second Period Attendance Report, we determined the high school ADA was understated by 2.65 due to incorrect attendance reports generated for the continuation program.

Effect

The District will need to revise their Second Period Attendance Report by a net increase in ADA of 2.65 for high school continuation attendance. The fiscal impact amounted to an increase of approximately \$22,000 in State apportionment funding.

Cause

The District was not using the hourly monthly attendance summaries to calculate the continuation ADA.

Recommendation

The District needed to revise their Second Period Attendance Report to reflect the correct ADA.

Corrective Action Plan

The Second Period Attendance Report was revised and the corrected attendance has been included in the audited financial statements.

KERMAN UNIFIED SCHOOL DISTRICT

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

2016-002 40000

Unduplicated Local Control Funding Formula Pupil Count

Criteria

With the Local Control Funding Formula, school districts receive supplemental funding known as the Supplement Grant and Concentration Grant. The amount of funding received is generated by the number of students who are either English Learners (EL) or participants in the Free/Reduced meal program in accordance with Educational Code sections 2574(b)(3)(C), 42238.02(b)(3)(b), and 41020.

Condition

During the audit of the unduplicated local control funding formula pupil count, numerous pupils were incorrectly reported as free/reduced on the CalPADS report with either no current application available for review or the application stated the student was denied for the free/reduced classification.

Effect

Forty pupils were initially selected as a sample and five were either missing an application on file or were denied based on income information provided. The district provided a list of pupils identified as Paid status, per their Nutrakids software, and that list was compared to pupils on the Calpads 1.18 report that were not direct certified, not foster/homeless, were participants in the free/reduced program, not migrant, and not designated as EL. The two lists were compared to identify pupils that were marked paid on the Nutrakids database but reported as free/reduced on the Calpads database. As a result, one hundred thirty (130) pupils were identified as being incorrectly designated as free/reduced on the Calpads database.

The below table summarizes the effect of students who were incorrectly reported.

Kerman Unified School District (excluding County programs)

Certified total enrollment	5,060
Certified total unduplicated pupil count	4,492
Unduplicated pupil count adjustment based on eligibility for FRPM	(130)
Adjusted total enrollment	5,060
Adjusted total unduplicated pupil count	4,362

Cause

During the annual updating process of student records, applications are collected and verified by the Food Services department of the District and the appropriate designations are updated in the CalPads system. The error occurred due to only pupils that changed to free/reduced were updated while pupils that changed to the paid status were not updated accordingly.

KERMAN UNIFIED SCHOOL DISTRICT

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

Questioned Cost

The above mention net effect has a questioned cost of approximately \$122,000 in reduced State apportionment revenue.

Recommendation

The District must have procedures in place to verify the status of the pupils reported on the CalPads database when students are designated as an English Learner or participants of the Free/Reduced meal program.

Corrective Action Plan

To ensure the accuracy of preliminary National School Lunch Program (NSLP) Free and Reduced (F&R) data within the Aeries database, the following procedure will be completed after normal business hours for the Child Nutrition Center (CNC) on California Basic Educational Data System (CBEDS) Information Day (first Wednesday in October):

1. The Director of Information Technology will delete all data from the FRE table in the current year's Aeries database using the following SQL command "DELETE * FROM FRE WHERE ID > 0"
2. The Coordinator of Food Services will extract F&R data from the Food Services system and e-mail a copy of the extracted file to the Director of Information Technology.
3. The Director of Information Technology will transform data contained in the extracted file using Microsoft Excel. The following data transformations are required:
 - a. The FRE table requires that all local student IDs in the table correlate to a student in the STU table. The extracted file contains students that are not Kerman Unified students. The local student IDs that do not correlate to a local student ID in the STU table will be deleted.
 - b. The FRE table requires that the pay type of each student be "F", "R", "P", or blank. The extracted file delineates the pay types as "Free", "Reduced", "Paid", or blank. "Free" will be replaced with "F", "Reduced" will be replaced with "R", and "Paid" will be replaced with "P" using the "Find and Replace" function in Excel.
 - c. The FRE table requires that the effective start date be in the format of YYYY-MM-DD 00:00:00.000. The extracted file contains effective start dates in the format of MM/DD/YYYY or blank. Using the LEFT, MID, and RIGHT functions in Excel, the dates will be extracted into additional cells and then combined in the proper format using the CONCATENATE function in Excel.
4. The Director of Information Technology will create a SQL script to insert the transformed data for each student into the FRE table in the current year's Aeries database using the CONCATENATE function in Excel. The resulting SQL script will be "INSERT INTO FRE (ID,CD,ESD) VALUES X,'T','D'" where X is the local student ID, T is the pay type, and D is the effective start date.

KERMAN UNIFIED SCHOOL DISTRICT

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

5. After the data is inserted into the FRE table, the Director of Information Technology will direct a Technology Specialist III to conduct a full backup of the current year's Aeries database. The backup will be stored for CBEDS Information Day archival purposes.

To ensure the accuracy of final National School Lunch Program (NSLP) Free and Reduced (F&R) data within the Aeries database, the following procedure will be completed after normal business hours for the Child Nutrition Center (CNC) on the first working day in November:

1. The Director of Information Technology will delete all data from the FRE table in the current year's Aeries database using the following SQL command "DELETE * FROM FRE WHERE ID > 0"
2. The Coordinator of Food Services will extract F&R data from the Food Services system and e-mail a copy of the extracted file to the Director of Information Technology.
3. The Director of Information Technology will transform data contained in the extracted file using Microsoft Excel. The following data transformations are required:
 - a. The FRE table requires that all local student IDs in the table correlate to a student in the STU table. The extracted file contains students that are not Kerman Unified students. The local student IDs that do not correlate to a local student ID in the STU table will be deleted.
 - b. The FRE table requires that the pay type of each student be "F", "R", "P", or blank. The extracted file delineates the pay types as "Free", "Reduced", "Paid", or blank. "Free" will be replaced with "F", "Reduced" will be replaced with "R", and "Paid" will be replaced with "P" using the "Find and Replace" function in Excel.
 - c. The FRE table requires that the effective start date be in the format of YYYY-MM-DD 00:00:00.000. The extracted file contains effective start dates in the format of MM/DD/YYYY or blank. Using the LEFT, MID, and RIGHT functions in Excel, the dates will be extracted into additional cells and then combined in the proper format using the CONCATENATE function in Excel.
4. The Director of Information Technology will create a SQL script to insert the transformed data for each student into the FRE table in the current year's Aeries database using the CONCATENATE function in Excel. The resulting SQL script will be "INSERT INTO FRE (ID,CD,ESD) VALUES X,'T','D'" where X is the local student ID, T is the pay type, and D is the effective start date.

KERMAN UNIFIED SCHOOL DISTRICT

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

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



Governing Board
Kerman Unified School District
Kerman, California

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

However, during our audit we noted matters that are opportunities for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated December 13, 2016, on the government-wide financial statements of the District.

KERMAN HIGH SCHOOL - ASSOCIATED STUDENT BODY (ASB)

Cash Receipts

Observation

During the audit of the cash receipts system, we discovered club advisors/teachers are not consistently using sub-receipt books or a tally sheet/class roster (there is no supporting documentation) to document when funds are being turned in, how much, and by which students. Without this supporting documentation we cannot determine if a deposit is intact or if club advisors/teachers are forwarding funds to the ASB bookkeeper in a timely manner. Since there are no sub-receipts attached to the funds turned in, the bookkeeper cannot reconcile the funds back to any documentation to determine the accuracy of the cash count sheet to the actual amount turned in.

Recommendation

Prenumbered receipts or tally sheets/class rosters should be used for all collections by club advisors/teachers that include date funds received and specific description of the source of the funds. A copy of the receipts or supporting documentation which has been reconciled to the deposit by the club advisor/teacher should be forwarded to the bookkeeper as documentation that all funds collected have been turned in.

Stale Dated Check

Observation

During our audit of the outstanding check listing for the October 2015 bank reconciliation, we discovered checks totaling \$1,963.11 and one deposit adjustment totaling \$557.38 which were over six months old making for a low probability that they will clear the account.

Recommendation

Outstanding checks and deposit adjustments over six months old should be credited back to the appropriate account and taken off the subsequent bank reconciliation. If the check clears in the future, the amount should be charged against the appropriate account and supported with documentation from the initial check.

Revenue Potentials

Observation

Revenue potential forms are consistently used to approve and document fundraising activities as they occur. However, many of the forms reviewed did not include actual expenses and revenues or an analysis of whether or not the fundraiser was successful. The forms offer the clubs an element of internal control without which it is not possible to determine the success or failure of a fundraiser or to track fundraising funds as it is spent and received.

Recommendation

The revenue potential form is a vital internal control tool; it should be used to document potential revenues and expenditures and also to document actual revenue and expenditures. This allows an analysis of the fundraiser to be conducted, indicating to the staff the success or failure of the completed project. The revenue potential can also identify weak control areas in the fundraising process at the site, including lost or stolen merchandise, problems with collecting all funds due and so forth. The revenue potential form used at the site should contain four major elements. These are:

- **Potential Expense/Income**-This lists the selling price of the item multiplied by the number of items purchased to compute the total income that should be deposited from the fundraiser if all the items were sold and all the funds were turned in. This element should also be utilized to track the cost of the items, check numbers used to purchase the items, and the purchase dates. This purchasing information is a good reference source for future sales and also tracks cost so profits can be determined.
- **Expenditures/Receipts/Fundraiser Deposits**-This records all expenditures and deposits turned in which are from funds generated from the sale. The check numbers and receipt numbers issued to the advisor from the bookkeeper, date, and deposit amount should be documented on the form. This is necessary to perform a recap of the expenses and income from deposits. It also creates a trail of checks and deposits that can be traced to the appropriate accounts.
- **Analysis**-This section is used to compare the potential income as calculated in the potential income section to the actual funds raised as calculated in the Receipts/Fundraiser Deposits section. The difference between these two amounts should be documented explained. The explanation can consist of merchandise not sold, merchandise lost or destroyed, or funds lost or stolen.
- **Recap**-This section figures the net profit of the sale. Fundraisers of this type can be planned or canceled depending on the information calculated in this section.

Ticket Sales Recap Form

Observation

A Ticket Sales Recap Form is not used at the events to reconcile the number of tickets issued to the total cash amount received.

Recommendation

A Ticket Sales Recap Form should be used in conjunction with the master log and should be used by the individuals issuing tickets and collecting funds at the events. The beginning and ending ticket numbers should be noted on the ticket recap form after the event and reconciled to the funds received prior to making the deposit with the bookkeeper. When the Ticket Sales Recap Form is received by the bookkeeper, the ending ticket number should be recorded in the Master Ticket Log and the sales recap form should be verified against the deposit.

Concession Stand – Sales

Observation

During our audit of cash receipts, we discovered there were no receipts issued or other documentation used to support concession stand sales. Without receipts or some other form of sales documentation, a reconciliation of the cash received cannot be completed.

Recommendation

The site should purchase a register or use some other form of documentation to record sales at the concession stand. After the event, someone should count the funds and compare the amount to the register or other supporting documentation total. The totals should match. After reconciling the deposit, a copy of the register total or other supporting documentation should be included with the cash count sheet and funds to be deposited with the ASB bookkeeper.

Concession Stand – Inventory

Observation

During our audit of cash receipts, we discovered student clubs within the ASB organization do not perform a concession stand inventory prior to or after school events.

Recommendation

A physical inventory of concession stand products should be taken before and after each event by club members that intend to operate the stand. Additionally, the difference between the beginning and ending amounts multiplied by their value could be compared to the total sales after the event in an effort to determine whether inventory has been lost or stolen.

Cash Disbursements

Observation

During our audit of the cash disbursements, we discovered seven of ten disbursements did not have an approval prior to the purchase. Purchase orders and purchase requests reviewed had approval signatures dated after the date shown on the invoices.

Recommendation

All purchases must be pre-approved by a board-designated official, a student organization representative, and the certificated employee who is the student organization advisor. In order to provide proper controls over spending, the site should take the necessary steps to ensure that purchase orders or purchase requests are approved prior to items or services being purchased.

KERMAN MIDDLE SCHOOL - ASSOCIATED STUDENT BODY (ASB)

Bank Reconciliation Review/Procedures

Observation

The monthly bank statements are prepared on a monthly basis, however an independent review is not occurring until several months later during the quarterly bank statement and reconciliation review. Due to the untimely review, the site would be unaware of errors made either by the site ASB staff or bank and the financial records may not accurately reflect true financial information. We also observed a stale dated check had not been cleared from the outstanding items.

Recommendation

Bank reconciliation reviews must be done on a monthly basis in order to ensure that the cash balance reported on the books is accurate and that the financial institution has not made a mistake. Besides reconciling the cash accounts, the balances of the student body accounts should be totaled and compared to this reconciled cash amount to ensure that the two amounts are equal. Differences between these two amounts could be caused by mispostings to the student body accounts. Funds from stale dated checks should be credited to the originating club.

General Ledger

Observation

The ASB bookkeeper is not maintaining a general ledger. One ledger is kept for checks written and another for cash received, however the two are separate and no ledger exists to document the full activity of the account or provide a running balance. We also observed two instances where a check had been written and cleared the bank but not recorded in the ledger.

Recommendation

The site should implement the use of a general ledger; a book or file in which accounts are kept to the degree of detail necessary to summarize the financial transactions of an organization. It includes all assets, liabilities and elements of equity of an enterprise, including revenues and expenses. In addition, a policy should be implemented to ensure the site is following the procedures outlined in the Associated Student Body Accounting Manual, Fraud Prevention Guide and Desk Reference published by the Fiscal Crisis & Management Assistance Team (FCMAT) which is available at www.fcmat.org.

Timely Deposits

Observation

During our audit of cash receipts, we discovered the cash receipts from the snack bar for October, November, December 2016 and January 2016 were not deposited until February. This condition can result in large cash balances being maintained on site where there is a greater chance of theft or the funds being lost or misplaced.

Recommendation

Funds collected by teachers and advisors should be brought to the bookkeeper to be stored in the safe. Deposits to the bank should be made at least weekly to minimize the amount of cash held at the site. During weeks of high activity there may be a need to make more than one deposit. The District should establish guidelines for this procedure including the maximum cash on hand that should be maintained at the site.

Cash Receipts

Observation

While auditing the cash receipts system, we discovered that not all teachers are using sub-receipt books or a class roster (there is no supporting documentation) to document when funds are being turned in, how much, and by which students. Without this supporting documentation we cannot determine if a deposit was intact or if the teachers are forwarding funds to the ASB bookkeeper in a timely manner. Since there are no sub-receipts attached to the funds turned in, the bookkeeper cannot reconcile back to any documentation to determine the accuracy of the cash count sheet and the actual amount turned in.

Recommendation

Prenumbered receipts should be issued for all collections by teacher, advisors and the site bookkeeper, which would include a specific description of the source of the funds. A carbon of the receipts issued by the teachers and advisors should be forwarded with the cash to the bookkeeper as documentation that all monies collected have been turned in. The receipts issued to teachers and advisors from the bookkeeper should be totaled and reconciled to the current bank deposit. A system to mark the last receipt which corresponds to a deposit must be started in order to know which receipts are related to the current bank deposit.

Master Ticket Log

Observation

A Master Ticket Log is not being utilized to account for all tickets on hand and used during the year.

Recommendation

A Master Ticket Log should be maintained, which notes the type of ticket, color, and beginning and ending ticket number in the roll. When ticket rolls are issued, they should be logged out noting the beginning ticket number in the roll and to whom the roll was issued. When the Ticket Sales Recap Form is returned, the ending ticket number should be recorded in the Master Ticket Log and the form should be reconciled to the log. The log should be used in conjunction with a Ticket Sales Recap Form.

Cash Disbursements

Observation

In auditing the cash disbursement procedures at the site, we determined that internal controls over the disbursement process are not in place. We discovered expenditures regularly had approvals dated after the invoice date indicating the expenditure was not preapproved. During our audit, we discovered a club advisor had been reimbursed for a personal membership to Costco. These uses of ASB funds fall under the category of prohibited expenditures.

Recommendation

The site should review the cash disbursement procedures outlined in the California Department of Education's manual titled, "Accounting and Procedures for Student Organization." In order to provide proper controls over spending, the site should take the necessary steps to ensure that expenditures are approved prior to the item being purchased. All expenditures should be approved only if the purchased item is for the general welfare and benefit of all students of the club or associated student body. This will reduce the risk of unauthorized spending and using ASB monies for prohibited expenditures.

GOLDENROD ELEMENTARY SCHOOL - ASSOCIATED STUDENT BODY (ASB)

Cash Receipts

Observation

As discussed on the prior year audit report, the following observations were not resolved in the current year:

- When teachers make deposits to the office, the receipts being issued by the office to teachers are not prenumbered.
- Bank deposits either have no documentation supporting the deposit or not all the supporting documentation (sub-receipts collected from teachers) was provided with the bank deposit.

As a result of these deficiencies, the auditor was unable to verify the deposits.

Recommendation

The District should provide the site with policies/procedures or an in-service regarding the District's established ASB cash receipting procedures to ensure that the site has a sufficient understanding of what is required to properly handle and account for cash deposits.

KERMAN-FLOYD ELEMENTARY SCHOOL - ASSOCIATED STUDENT BODY (ASB)

Cash Receipts

Observation

During our audit of cash receipts, we discovered the following control deficiencies:

- When teachers make deposits to the office, the receipts being issued by the ASB bookkeeper to teachers are not prenumbered.
- Cash logs are used by the teachers to track monies turned in. The cash logs do not always agree to bank deposits. In one of the deposits selected for testing, the bank deposit receipt was for \$847 and the cash logs totaled \$724.87.
- There were numerous bank deposits that had no documentation supporting the deposit. As a result of these deficiencies, the auditor was unable to verify the completeness and intactness of deposits.
- Of the three deposits tested, two were not made in a timely manner. The funds were collected by the teachers in October, but were not deposited to the bank until December.

Recommendation

Prenumbered receipts should be issued for all collections by teacher, advisors and the site bookkeeper, which would include a specific description of the source of the funds. When a log is used, the logs should be totaled and reconciled to the current bank deposit. In addition, the District should provide the site with policies/procedures or an in-service regarding the District's established ASB cash receipting procedures to ensure that the site has a sufficient understanding of what is required to properly handle and account for cash deposits.

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

Vannink, Trine, Day & Co, LLP

Fresno, California
December 13, 2016