COVINA-VALLEY UNIFIED SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

JUNE 30, 2016

COVINA-VALLEY UNIFIED SCHOOL DISTRICT

TABLE OF CONTENTS
JUNE 30, 2016

COVINA-VALLEY UNIFIED SCHOOL DISTRICT

TABLE OF CONTENTS
JUNE 30, 2016

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

Governing Board
Covina-Valley Unified School District
Covina, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Covina-Valley 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.

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Opinions

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

Emphasis of Matter – Change in Accounting Principles

As discussed in Note 17 to the financial statements, in 2016, the District began receiving a dedicated revenue source for its Adult Education Fund. As a result, the Adult Education Fund meets the definition of a special revenue fund under GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definition* and is reported accordingly. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 16, budgetary comparison schedule on page 73, schedule of other postemployment benefits funding progress on page 74, schedule of the District's proportionate share of the net pension liability on page 75, and the schedule of District contributions on page 76, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Covina-Valley 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, Schedule of Expenditures of Federal Awards and 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 12, 2016, on our consideration of the Covina-Valley 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 Covina-Valley Unified School District's internal control over financial reporting and compliance.

Vavrinek, Trine, Day + Co. LLP

Rancho Cucamonga, California
December 12, 2016

This section of Covina-Valley Unified School District's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2016, with comparative information for the year ending June 30, 2015. Please read it in conjunction with the District's financial statements, which immediately follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

The financial statements presented herein include all of the activities of the 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.

Governmental and Business-Type Activities are prepared using the economic resources measurement focus and the accrual basis of accounting.

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

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

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

The Primary unit of the government is the Covina-Valley Unified School District.

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

Business-Type Activities - The District charges fees to help it cover the costs of certain services it provides. The District's Daycare Before and After School programs and services are included here.

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

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

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

***Proprietary Funds* -** When the District charges users for the services it provides, whether to outside customers or to other departments within the District, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the *Statement of Net Position* and the *Statement of Revenues, Expenses, and Changes in Fund Net Position*. In fact, the District's enterprise funds are the same as the business-type activities we report in the government-wide statements, but provide more detail and additional information, such as cash flows, for proprietary funds. We use internal service funds (the other component of proprietary funds) to report activities that provide supplies and services for the District's other programs and activities, such as the District's Self-Insurance Fund. The internal service funds are reported with governmental activities in the government-wide financial statements.

THE DISTRICT AS A TRUSTEE

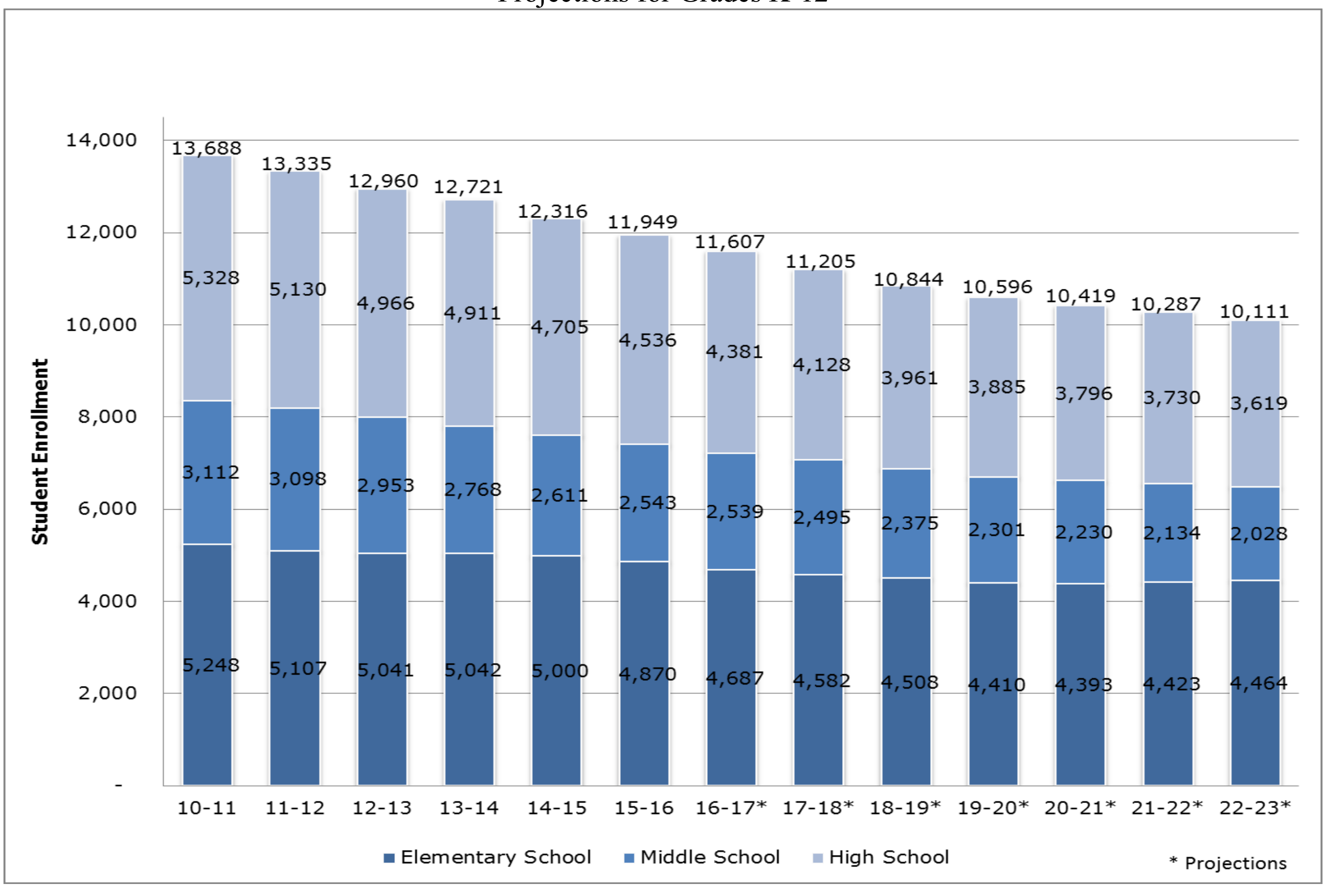
Reporting the Districts Fiduciary Responsibilities

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

FINANCIAL HIGHLIGHTS

The Local Control Funding Formula (LCFF) was adopted in the 2013-2014 State Budget Act under Assembly Bill AB97. In 2015-2016, enrollment decreased by 2.98 percent and funded ADA decreased by 2.49 percent which resulted in a loss of $2.48 million in revenue. Using the 2015-2016 as the base student enrollment, the District projects cumulatively during fiscal years 2016-2017, 2017-2018, and 2018-2019 a potential loss of $7.1 million due to declining enrollment.

Enrollment Date
Projections for Grades K-12



THE DISTRICT AS A WHOLE

Net Position

The District's net position was $(91,266,339) for the fiscal year ended June 30, 2016. Of this amount. $(110,758,104) was unrestricted. Restricted net position are reported separately to show legal constraints from debt covenants and enabling legislation that limit the governing board's ability to use those net position for day-to-day operations. Our analysis below, in summary form, focuses on the net position (Table 1) and change in net position (Table 2) of the District's governmental activities.

Table 1

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Assets						
Current and other assets	$ 84,136,759	$ 52,659,981	$ 704,532	$ 607,025	$ 84,841,291	$ 53,267,006
Capital assets	138,945,014	124,595,001	-	-	138,945,014	124,595,001
Total Assets	**223,081,773**	**177,254,982**	**704,532**	**607,025**	**223,786,305**	**177,862,007**
Deferred Outflows of Resources	**30,393,844**	**7,308,991**	**-**	**-**	**30,393,844**	**7,308,991**
Liabilities						
Current liabilities	29,879,621	21,334,965	34,052	150,286	29,913,673	21,485,251
Long-term obligations	179,940,065	148,227,215	-	-	179,940,065	148,227,215
Aggregate net pension liability*	112,883,978	86,716,607	-	-	112,883,978	86,716,607
Total Liabilities	**322,703,664**	**256,278,787**	**34,052**	**150,286**	**322,737,716**	**256,429,073**
Deferred Inflows of Resources	**22,708,772**	**23,977,894**	**-**	**-**	**22,708,772**	**23,977,894**
Net Position						
Investment in capital assets, net of related debt	(2,847,752)	5,128,612	-	-	(2,847,752)	5,128,612
Restricted	21,669,037	16,962,354	670,480	456,739	22,339,517	17,419,093
Unrestricted (Deficit)	(110,758,104)	(117,783,674)	-	-	(110,758,104)	(117,783,674)
Total Net Position	**$ (91,936,819)**	**$ (95,692,708)**	**$ 670,480**	**$ 456,739**	**$ (91,266,339)**	**$ (95,235,969)**

* Directly paid by CalPERS and CalSTRS and not reflected in the government fund financial statements.

The $(110,758,104) in unrestricted net position of governmental activities represents the accumulated results of all past years' operations.

Changes in Net Position

The results of this year's operations for the District as a whole are reported in the *Statement of Activities* on page 18. 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

	Governmental Activities		Business Activities		School District Activities	
	2016	2015	2016	2015	2016	2015
Revenues						
Program revenues:						
Charges for services	$ 4,598,602	$ 3,612,661	$ -	$ -	$ 4,598,602	$ 3,612,661
Operating grants and contributions	31,295,761	22,671,224	-	-	31,295,761	22,671,224
General revenues:						
Federal and State aid not restricted	96,690,016	85,183,840	-	-	96,690,016	85,183,840
Property taxes	29,912,268	23,968,751	-	-	29,912,268	23,968,751
Other general revenues	2,879,480	5,695,065	947,828	3,047,559	3,827,308	8,742,624
Total Revenues	**165,376,127**	**141,131,541**	**947,828**	**3,047,559**	**166,323,955**	**144,179,100**
Expenses						
Instruction-related	110,986,308	100,368,932	-	-	110,986,308	100,368,932
Pupil services	14,437,374	14,033,998	-	-	14,437,374	14,033,998
Administration	7,844,312	7,681,048	-	-	7,844,312	7,681,048
Plant services	16,434,258	13,846,441	-	-	16,434,258	13,846,441
Other	11,917,986	12,035,672	734,087	2,863,891	12,652,073	14,899,563
Total Expenses	**$ 161,620,238**	**$ 147,966,091**	**$ 734,087**	**$ 2,863,891**	**$ 162,354,325**	**$ 150,829,982**

Governmental Activities

As reported in the *Statement of Activities* on page 18, the cost of all of our governmental activities this year was $161,620,238. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only $29,912,268 because the cost was paid by those who benefited from the programs $(4,598,602) or by other governments and organizations who subsidized certain programs with grants and contributions $(31,295,761). We paid for the remaining "public benefit" portion of our governmental activities with $99,569,496 in State funds and with other revenues, like interest and general entitlements.

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

Table 3

	Total Cost of Services		Net Cost of Services	
	2016	2015	2016	2015
Instruction-related	$ 110,986,308	$ 100,368,932	$ 87,457,069	$ 84,486,903
Pupil services	14,437,374	14,033,998	6,299,705	6,899,061
Administration	7,844,312	7,681,048	6,829,848	6,318,496
Plant services	16,434,258	13,846,441	15,702,545	13,575,892
Other	11,917,986	12,035,672	9,436,708	10,401,854
Total	**$ 161,620,238**	**$ 147,966,091**	**$ 125,725,875**	**$ 121,682,206**

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of $52,672,815, which is an increase of $22,494,921 from last year (Table 4).

Table 4

	Balances and Activity			
	July 1, 2015, as restated	Revenues	Expenditures	June 30, 2016
General Fund	$ 15,297,336	$ 143,547,043	$ 136,313,034	$ 22,531,345
Building Fund	2,798,165	37,231,537	25,538,823	14,490,879
Bond Interest and Redemption Fund	5,986,240	12,380,084	10,318,126	8,048,198
Adult Education Fund	16,669	4,000,943	3,615,229	402,383
Child Development Fund	17,611	1,702,891	1,634,533	85,969
Cafeteria Fund	5,879,561	6,216,763	5,617,037	6,479,287
Capital Facilities Fund	182,312	375,550	1,858	556,004
Special Reserve Fund for Capital Outlay Projects	-	532,118	453,368	78,750
Total	**$ 30,177,894**	**$ 205,986,929**	**$ 183,492,008**	**$ 52,672,815**

The primary reasons for these increases are:

- As the District's principal operating funding, the General Fund, is comprised of unrestricted as well as restricted dollars. The General Fund 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.

  In accordance with GASB Statement No. 54 requirements, the fund balance for the General Fund is inclusive of all financial activity recorded in the Deferred Maintenance Fund. In addition, the fund balance includes all the financial activity for the East San Gabriel Valley SELPA. The District serves as the Administrative Unit for the SELPA and records all financial activity under a sub fund within the District's General Fund.

  In total, the General Fund balance increased by $7.2 million. A breakdown of the changes is shown on the table below:

Unrestricted General Fund	$6.5 million
Restricted General Fund	$1.2 million
SELPA Reserve Fund	($0.5 million)

- The Cafeteria Fund is used to account separately for Federal, State, and local resources to operate the Nutrition Services program. The Cafeteria Fund increased by $0.6 million.

- The Building Fund is primarily utilized to account bond proceeds and record expenditures in accordance with bond language. The fund balance in the Building Fund increased by $11.7 million.

- The Bond Interest and Redemption Fund are used for the repayment of bonds issued by the District. The Bond Interest and Redemption fund increased by $2.1 million primarily due to an increase in tax collection.

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. (A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in our annual report on page 73.)

The anticipated ending balance for the General Fund was projected at $20.9 million, based on final budgetary revisions through June 30, 2016. Based on year-end totals, the ending fund balance was $22.5 million, reflecting an increase over earlier projections.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2016, the District had $138,945,014 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 just over $14,350,013, or 11.5 percent, from last year (Table 5).

Table 5

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land and construction in progress	$ 31,449,322	$ 25,220,385	$ -	$ -	$ 31,449,322	$ 25,220,385
Buildings and improvements	106,323,478	97,961,648	-	-	106,323,478	97,961,648
Equipment	1,172,214	1,412,968	-	-	1,172,214	1,412,968
Total	**$ 138,945,014**	**$ 124,595,001**	**$ -**	**$ -**	**$ 138,945,014**	**$ 124,595,001**

This year's additions included site and building improvements, and classroom equipment such as computers. No new debt was issued for these additions.

Several capital projects are planned for the 2016-2017 year. We present more detailed information about our capital assets in Note 5 to the financial statements.

Long-Term Obligations

At the end of this year, the District had $179,940,065 in long-term obligations outstanding versus $148,227,215 last year, an increase of 21.4 percent. Those long-term obligations consisted of:

Table 6

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
General Obligation Bonds - net (financed with property taxes)	$ 172,699,855	$ 138,331,364	$ -	$ -	$ 172,699,855	$ 138,331,364
Qualified Zone Academy Bonds	2,922,807	3,264,693	-	-	2,922,807	3,264,693
Early retirement incentives	435,000	3,515,397	-	-	435,000	3,515,397
Capitalized lease obligations	-	108,790	-	-	-	108,790
Other postemployment benefits	363,913	-	-	-	363,913	-
Compensated absences	1,505,229	1,422,001	-	-	1,505,229	1,422,001
Claims liability	2,013,261	1,584,970	-	-	2,013,261	1,584,970
Total	**$ 179,940,065**	**$ 148,227,215**	**$ -**	**$ -**	**$ 179,940,065**	**$ 148,227,215**

The District's General Obligation Bond rating continues to be "Aa3." The State limits the amount of general obligation debt that districts can issue to five percent of the assessed value of all taxable property within the District's boundaries. The District's outstanding net obligation debt of $172.7 million is below statutorily-imposed limit of $207.6 million.

Other obligations include payable compensated absences, other postemployment benefits, and other long-term obligations. We present more detailed information regarding our long-term obligations in Note 9 of the financial statements.

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

Accomplishments to support student learning during the 2015-2016 school year included professional development activities for teachers, administrators and classified staff to support the District's priorities to increase student achievement, close the achievement gap, and create a four-year college going culture. The primary goal for C-VUSD is to prepare all students for the 21st century and ensure college and career readiness. The District focused on its Theory of Action in which leadership and collaboration lead to innovation. A 21st Century Advisory Committee and LCAP Advisory Committee were utilized to bring District stakeholders together to refine the District's mission. Also implemented was a District Gold Standard that focused on academic competencies and habits of mind; college readiness course of study; engaging 21st century skills; connectedness; safe learning environment; highly qualified team; and uniform practices and decision-making.

The District continued to analyze data specific to subgroups and Program Improvement sites. The Local Control Accountability Plan (LCAP) was carefully revised and monitored to ensure that these recommendations were integrated into all District program areas. The District continued to ensure alignment of expenditures and purchases toward achievement of the recommendations through the review of each of the Single Plans for Student Achievement, professional development, and purchase orders. The 2015-2016 budget was built with a focus on the goals of the District, specific actions noted in the LCAP, and major support to Program Improvement schools and subgroups exhibiting gaps.

The school district did issue the second series of bond issuance in the amount of $37,000,000 to continue to finance the repair, upgrading, acquisition, construction and equipping of District property and facilities. In addition, the ending fund balance for the General Fund increased from the prior year due primarily to the one-time outstanding mandate claims funds received in the amount of $6.4 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In considering the District Adopted Budget for the 2016-17 fiscal year, the Governing Board and management used the following criteria:

The key assumptions in our revenue forecast are:

- LCFF Revenue is budgeted at $9,800 per ADA, comprised zero percent COLA, 69.4 percent Unduplicated and 54.84 percent LCFF Funding Gap. Enrollment projections indicate a decline in student population that directly affects the LCFF Revenue Funding. Projected Second Period Apportionment (P2 ADA) is projected at 11,317, included 43.03 LACOE operated programs ADA. The District will be funded on the prior year P2 ADA of 11,644.41.

- LCFF income is budgeted at $110.2 million, an increase of $2.6 million, or 2.4 percent from the prior year. This included property tax revenues budgeted at $16.8 million and EPA revenues budgeted at $16.4 million.

- Federal Income is budgeted at $6.3 million, a decrease of $0.6 million.

- Other state income is budgeted at $20.0 million, a decrease of $4.7 million. The decrease is mainly attributed to the decrease in one-time funds for outstanding mandated claims.

- Other Local Revenue is budgeted at $4.9 million, an increase of $0.3 million.

- Interest income from reserves held at the Los Angeles County Treasury Office is projected at $130 thousand with an interest rate of 0.7 percent.

- Unrestricted Lottery Revenue is budgeted at $1.7 million, a decrease of $41 thousand over the prior year due to projected declining enrollment.

- Restricted Lottery Revenue is budgeted at $0.50 million, a decrease of $42 thousand from prior year.

Expenditures are based on the following forecasts:

- Health and Welfare costs are expected to increase by $0.7 million from the prior year.

- The contribution for statutory benefits is equal to 15.98 percent for certificated personnel and 23.488 percent for classified personnel.

- Salary projections incorporate added costs for step, column, and longevity totaling approximately $4.1 million.

- Substitute teacher costs are budgeted at $1.4 million.

- Liability and property damage insurance is budgeted at $0.5 million.

- Utilities and other operating costs are budgeted at $3.6 million.

- The following represent projected certificated personal staffing ratios:

	Staffing Ratio	Enrollment
Grades kindergarten through three	26:1	3,149
Grades four through sixth	32:1	2,391
Grades sixth through eighth	34:1	1,686
Grades ninth through twelfth	34:1	4,381

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 Robert McEntire, the Chief Business Officer at Covina-Valley Unified School District, 519 East Badillo Street, Covina, California, 91723 or e-mail at rmcentire@c-vusd.org

COVINA-VALLEY UNIFIED SCHOOL DISTRICT

STATEMENT OF NET POSITION
JUNE 30, 2016

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Deposits and investments	$ 77,446,445	$ 689,233	$ 78,135,678
Receivables	6,531,831	1,861	6,533,692
Prepaid expenses	16,767	-	16,767
Stores inventories	141,716	13,438	155,154
Capital Assets			
Land and construction in process	31,449,322	-	31,449,322
Other capital assets	210,335,880	-	210,335,880
Less: Accumulated depreciation	(102,840,188)	-	(102,840,188)
Total Capital Assets	138,945,014	-	138,945,014
Total Assets	223,081,773	704,532	223,786,305
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources related to pensions	30,393,844	-	30,393,844
LIABILITIES			
Accounts payable	28,339,353	34,052	28,373,405
Accrued interest payable	1,490,866	-	1,490,866
Unearned revenue	49,402	-	49,402
Long-Term Obligations:			
Current portion of long-term obligations other than pensions	7,583,940	-	7,583,940
Noncurrent portion of long-term obligations other than pensions	172,356,125	-	172,356,125
Total Long-Term Obligations	179,940,065	-	179,940,065
Aggregate net pension liability	112,883,978	-	112,883,978
Total Liabilities	322,703,664	34,052	322,737,716
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources related to pensions	22,708,772	-	22,708,772
NET POSITION			
Invested in capital assets, net of related debt	(2,847,752)	-	(2,847,752)
Restricted for:			
Debt service	6,557,332	-	6,557,332
Capital projects	556,004	-	556,004
Educational programs	6,615,261	-	6,615,261
Other restrictions	7,940,440	670,480	8,610,920
Unrestricted	(110,758,104)	-	(110,758,104)
Total Net Position	$ (91,936,819)	$ 670,480	$ (91,266,339)

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

COVINA-VALLEY UNIFIED SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

		Program Revenues	
Functions/Programs	Expenses	Charges for Services and Sales	Operating Grants and Contributions
Governmental Activities:			
Instruction	$ 94,316,528	$ 2,251,574	$ 17,444,831
Instruction-related activities:			
Supervision of instruction	4,855,428	285,193	1,678,254
Instructional library, media, and technology	1,655,705	-	61,247
School site administration	10,158,647	271,959	1,536,181
Pupil services:			
Home-to-school transportation	2,351,675	125	2,176
Food services	5,365,459	687,471	5,127,484
All other pupil services	6,720,240	225,359	2,095,054
Administration:			
Data processing	2,279,499	-	4,064
All other administration	5,564,813	91,739	918,661
Plant services	16,434,258	119,709	612,004
Enterprise services	10,293	-	-
Interest on long-term obligations	5,367,955	-	-
Other outgo	6,539,738	665,473	1,815,805
Total Governmental Activities	161,620,238	4,598,602	31,295,761
Business-Type Activities			
Enterprise services	734,087	-	-
Total School District Activities	$ 162,354,325	$ 4,598,602	$ 31,295,761

General revenues and subventions:
- Property taxes, levied for general purposes
- Property taxes, levied for debt service
- Taxes levied for other specific purposes
- Federal and State aid not restricted to specific purposes
- Interest and investment earnings
- Transfers
- Miscellaneous

Subtotal, General Revenues

Change in Net Position

Net Position - Beginning, as restated

Net Position - Ending

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

Net (Expenses) Revenues and Changes in Net Position		
Governmental Activities	Business-Type Activities	Total
$ (74,620,123)	$ -	$ (74,620,123)
(2,891,981)	-	(2,891,981)
(1,594,458)	-	(1,594,458)
(8,350,507)	-	(8,350,507)
(2,349,374)	-	(2,349,374)
449,496	-	449,496
(4,399,827)	-	(4,399,827)
(2,275,435)	-	(2,275,435)
(4,554,413)	-	(4,554,413)
(15,702,545)	-	(15,702,545)
(10,293)	-	(10,293)
(5,367,955)	-	(5,367,955)
(4,058,460)	-	(4,058,460)
(125,725,875)	-	(125,725,875)
-	(734,087)	(734,087)
(125,725,875)	(734,087)	(126,459,962)
19,753,843	-	19,753,843
9,562,356	-	9,562,356
596,069	-	596,069
96,690,016	-	96,690,016
488,436	3,572	492,008
100,000	(100,000)	-
2,291,044	1,044,256	3,335,300
129,481,764	947,828	130,429,592
3,755,889	213,741	3,969,630
(95,692,708)	456,739	(95,235,969)
$ (91,936,819)	$ 670,480	$ (91,266,339)

COVINA-VALLEY UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2016

	General Fund	Building Fund	Bond Interest and Redemption Fund
ASSETS			
Deposits and investments	$ 34,642,587	$ 22,013,711	$ 8,048,198
Receivables	4,860,610	80,479	-
Prepaid expenditures	16,767	-	-
Stores inventories	65,733	-	-
Total Assets	$ 39,585,697	$ 22,094,190	$ 8,048,198
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	$ 17,004,950	$ 7,603,311	$ -
Unearned revenue	49,402	-	-
Total Liabilities	17,054,352	7,603,311	-
Fund Balances:			
Nonspendable	117,500	-	-
Restricted	6,615,261	14,490,879	8,048,198
Assigned	7,333,100	-	-
Unassigned	8,465,484	-	-
Total Fund Balances	22,531,345	14,490,879	8,048,198
Total Liabilities and Fund Balances	$ 39,585,697	$ 22,094,190	$ 8,048,198

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

Non-Major Governmental Funds	Total Governmental Funds
$ 6,460,944	$ 71,165,440
1,487,282	6,428,371
-	16,767
75,983	141,716
$ 8,024,209	$ 77,752,294
$ 421,816	$ 25,030,077
-	49,402
421,816	25,079,479
75,983	193,483
7,434,516	36,588,854
91,894	7,424,994
-	8,465,484
7,602,393	52,672,815
$ 8,024,209	$ 77,752,294

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

Total Fund Balance - Governmental Funds		**$ 52,672,815**
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	$ 241,785,202	
Accumulated depreciation is	(102,840,188)	
Net Capital Assets		138,945,014
Expenditures relating to contributions made to pension plans were recognized on the modified accrual basis, but are not recognized on the accrual basis.		8,337,134
In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. On the government-wide financial statements, unmatured interest on long-term obligations is recognized when it is incurred.		(1,490,866)
An internal service fund is used by the District's management to charge the costs of the workers' compensation insurance program to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.		1,061,928
The net change in proportionate share of net pension liability as of the measurement date is not recognized as an expenditure under the modified accrual basis, but is recognized on the accrual basis over the expected remaining service life of members receiving pension benefits.		9,086,685
The difference between projected and actual earnings on pension plan investments are not recognized on the modified accrual basis, but are recognized on the accrual basis as an adjustment to pension expense.		(8,133,171)
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.		(216,600)

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

The changes of assumptions is not recognized as an expenditure under the modified accrual basis, but is recognized on the accrual basis over the expected average remaining service life of members receiving pension benefits.		$ (1,388,976)
Net pension liability is not due and payable in the current period, and is not reported as a liability in the funds.		(112,883,978)
Long-term obligations at year-end consist of:		
General obligation bonds	$ (143,793,135)	
Unamortized premium	(9,567,703)	
Qualified zone academy bonds	(2,922,807)	
Compensated absences (vacations)	(1,505,229)	
Other postemployment benefits (OPEB)	(363,913)	
Early retirement incentives	(435,000)	
In addition, the District has issued "capital appreciation" bonds. The accretion of interest on those bonds to date is:	(19,339,017)	
Total Long-Term Obligations		(177,926,804)
Total Net Position - Governmental Activities		**$ (91,936,819)**

COVINA-VALLEY UNIFIED SCHOOL DISTRICT

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

	General Fund	Building Fund	Bond Interest and Redemption Fund
REVENUES			
Local Control Funding Formula	$ 107,598,928	$ -	$ -
Federal sources	6,431,318	-	-
Other State sources	23,477,758	-	79,682
Other local sources	5,939,039	231,537	9,588,675
Total Revenues	143,447,043	231,537	9,668,357
EXPENDITURES			
Current			
Instruction	82,844,806	-	-
Instruction-related activities:			
Supervision of instruction	4,840,208	-	-
Instructional library, media, and technology	1,628,732	-	-
School site administration	8,826,748	-	-
Pupil services:			
Home-to-school transportation	2,081,131	-	-
Food services	64	-	-
All other pupil services	6,148,791	-	-
Administration:			
Data processing	2,240,792	-	-
All other administration	7,736,970	-	-
Plant services	12,660,790	-	-
Facility acquisition and construction	19,414	24,780,035	-
Other outgo	6,539,738	-	-
Debt service			
Principal	106,265	341,886	5,795,000
Interest and other	14,020	416,902	4,523,126
Total Expenditures	135,688,469	25,538,823	10,318,126
Excess (Deficiency) of Revenue Over Expenditures	7,758,574	(25,307,286)	(649,769)
Other Financing Sources (Uses)			
Transfers in	100,000	-	-
Other sources - proceeds of bonds	-	37,000,000	2,711,727
Transfers out	(624,565)	-	-
Net Financing Sources (Uses)	(524,565)	37,000,000	2,711,727
NET CHANGE IN FUND BALANCES	7,234,009	11,692,714	2,061,958
Fund Balance - Beginning, as restated	15,297,336	2,798,165	5,986,240
Fund Balance - Ending	$ 22,531,345	$ 14,490,879	$ 8,048,198

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

Non-Major Governmental Funds	Total Governmental Funds
$ -	$ 107,598,928
5,289,389	11,720,707
4,678,947	28,236,387
2,235,364	17,994,615
12,203,700	165,550,637
2,908,638	85,753,444
115,350	4,955,558
-	1,628,732
1,143,376	9,970,124
-	2,081,131
5,315,334	5,315,398
144,938	6,293,729
-	2,240,792
631,627	8,368,597
1,060,236	13,721,026
-	24,799,449
-	6,539,738
2,525	6,245,676
1	4,954,049
11,322,025	182,867,443
881,675	(17,316,806)
624,565	724,565
-	39,711,727
-	(624,565)
624,565	39,811,727
1,506,240	22,494,921
6,096,153	30,177,894
$ 7,602,393	$ 52,672,815

COVINA-VALLEY 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		**$ 22,494,921**
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 exceeds depreciation in the period.		
Capital outlays	$ 22,522,155	
Depreciation expense	(8,172,142)	
Net Expense Adjustment		14,350,013
In the Statement of Activities, certain operating expenses, such as compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, early retirement incentives paid were $3,080,397. Vacation earned was more than the amounts used by $83,228		2,997,169
Contributions for postemployment benefits are recorded as an expense in the governmental funds when paid. However, the difference between the annual required contribution and the actual contribution made, if less, is recorded in the government wide statements as an expense. The actual amount of the contribution was less than the annual OPEB cost by $422,220.		(422,220)
In the governmental funds, pension costs are based on employer contributions made to pension plans during the year. However, in the Statement of Activities, pension expense is the net effect of all changes in the deferred outflows, deferred inflows and net pension liability during the year.		(1,813,396)
Proceeds received from issuance of debt is a revenue in the goverenental funds, but it increases long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities. This year the District issued General Obligation Bonds.		(39,711,727)

COVINA-VALLEY UNIFIED SCHOOL DISTRICT

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

Governmental funds report the effect of premiums, discounts, and the deferred charges on a refunding when the debt is issued, whereas the amounts are deferred and amortized in the Statement of Activities.		
Premium on issuance	$	728,954
Repayment of debt 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		5,795,000
Qualified zone academy bonds		341,886
Capital lease obligations		108,790
Interest on long-term obligations in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the Statement of Activities is the result of two factors. First, accrued interest on the general obligation bonds decreased by $37,858, and second, $1,180,718 of accumulated interest was accreted on the District's "capital appreciation" general obligation bonds.		(1,142,860)
An internal service fund is used by the District's management to charge the costs of the workers' compensation program to the individual funds. The net revenue of the Internal Service Fund is reported with governmental activities.		29,359
Change in Net Position of Governmental Activities	**$**	**3,755,889**

COVINA-VALLEY UNIFIED SCHOOL DISTRICT

PROPRIETARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2016

	Business-Type Enterprise Fund	Governmental Activities
	Child Care Fund	**Internal Service Fund**
ASSETS		
Current Assets		
Deposits and investments	$ 689,233	$ 6,281,005
Receivables	1,861	103,460
Stores inventories	13,438	-
Total Current Assets	704,532	6,384,465
LIABILITIES		
Current Liabilities		
Accounts payable	34,052	3,309,276
Current portion of long-term obligations	-	797,460
Total Current Liabilities	34,052	4,106,736
Noncurrent Liabilities		
Noncurrent portion of long-term obligations	-	1,215,801
NET POSITION		
Restricted	670,480	1,061,928
Total Net Position	$ 670,480	$ 1,061,928

COVINA-VALLEY UNIFIED SCHOOL DISTRICT

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

	Business-Type Activities Enterprise Fund	Governmental Activities
	Child Care Fund	**Internal Service Fund**
OPERATING REVENUES		
Local and intermediate sources	$ 944,255	$ 16,100,169
OPERATING EXPENSES		
Payroll costs	580,220	-
Supplies and materials	39,629	-
Other operating cost	14,238	16,092,866
Total Operating Expenses	634,087	16,092,866
Operating Income	310,168	7,303
NONOPERATING REVENUES		
Interest income	3,573	22,056
Transfers out	(100,000)	-
Total Nonoperating Revenues	(96,427)	22,056
Change in Net Position	213,741	29,359
Total Net Position - Beginning	456,739	1,032,569
Total Net Position - Ending	$ 670,480	$ 1,061,928

COVINA-VALLEY UNIFIED SCHOOL DISTRICT

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

	Business-Type Activities Enterprise Fund	Governmental Activities
	Child Care Fund	Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	$ 1,085,799	$ 82,562
Cash receipts from interfund services provided	-	16,021,354
Cash payments to other suppliers of goods or services	(131,669)	(15,717,476)
Cash payments to employees for services	(580,220)	-
Other operating cash payments	(14,238)	-
Net Cash Provided by Operating Activities	359,672	386,440
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers to other funds	(100,000)	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	3,573	22,056
Net Increase in Cash and Cash Equivalents	263,245	408,496
Cash and Cash Equivalents - Beginning	425,988	5,872,509
Cash and Cash Equivalents - Ending	$ 689,233	$ 6,281,005
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$ 310,168	$ 7,303
Adjustments to reconcile operating income to net cash provided by operating activities:		
Changes in assets and liabilities:		
Receivables	141,544	3,747
Inventories	24,194	-
Accrued liabilities	(116,234)	(52,901)
Claims liability	-	428,291
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 359,672	$ 386,440

FIDUCIARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2016

	Student Body Fund	Special Education Pass-Through Fund
ASSETS		
Deposits and investments	$ 610,340	$ 4,714,266
Receivables	-	6,462,870
Stores inventories	46,271	-
Total Assets	$ 656,611	$ 11,177,136
LIABILITIES		
Accounts payable	$ 46,772	$ -
Due to student groups	609,839	-
Due to member districts	-	11,177,136
Total Liabilities	$ 656,611	$ 11,177,136

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Covina-Valley Unified School District (the District) was unified on December 15, 1959 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 ten elementary schools, three middle schools, three high schools, an alternative high school, a children's center program and adult education centers.

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

Component Units

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

The District has financial and operational relationships with the Covina-Valley Unified School District Facilities Finance Corporation (Corporation), as represented by the Qualified Zone Academy Bonds, which meets the reporting entity definition criteria of GASB Statement No. 14, *The Financial Reporting Entity*, as a component unit of the District. Accordingly, the financial activities of the Corporation have been included in the financial statements of the District.

For financial presentation purposes, the Corporation's financial activity has been blended, or combined, with the financial data for the District. The financial statements present the Corporation's financial activity within the Building Fund. Qualified Zone Academy Bonds issued are included as long-term obligation in the government-wide financial statements.

Basis of Presentation - Fund Accounting

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

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

Major Governmental Funds

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

One fund currently defined as special revenue fund in the California State Accounting Manual (CSAM) do not meet the GASB Statement No. 54 special revenue fund definition. Specifically, Fund 14, Deferred Maintenance Fund, 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 $57,799 and $57,799, respectively.

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.

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

Non-Major Governmental Funds

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

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

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

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).

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).

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

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

Internal Service Fund Internal service funds may be used to account for goods or services provided to other funds of the District in return for a fee to cover the cost of operations. The District operates a self-insurance fund that is accounted for as an internal service fund.

Enterprise Fund Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The child care enterprise fund of the District accounts for the financial transactions related to the before and after day care operations of the District.

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

The District is an Administrative Unit of East San Gabriel Valley Special Education Local Plan Areas (SELPA). The Special Education Pass-Through Fund, an agency fund, is used by the District to account for Special Education revenue passed through to the other member districts of the East San Gabriel Valley SELPA.

Basis of Accounting - Measurement Focus

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

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and program revenues for each segment of the business-type activities of the District and 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. Indirect expenses for centralized services and administrative overhead are allocated among the programs, functions, and segments using a full cost allocation approach. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the District. Eliminations have been made to minimize the double counting of internal activities.

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

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

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

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

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

Revenues – Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter, to be used to pay liabilities of the current fiscal year. Generally, available is defined as collectible within 45 or 60 days. However, to achieve comparability of reporting among California districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to State-aid apportionments, the California Department of Education has defined available for districts as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

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

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

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

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

Cash and Cash Equivalents

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

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 (Expenses)

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 paid.

Stores Inventories

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

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. Capital assets are long-lived assets of the District. The District maintains a capitalization threshold of $15,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, but are expensed as incurred.

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

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

Depreciation is computed using the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 25 to 50 years; improvements/infrastructure, 20 years; equipment, 5 to 15 years.

Interfund Balances

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

Compensated Absences

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

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

Accrued Liabilities and Long - Term Obligations

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

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

Debt Issuance Costs, Premiums and Discounts

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

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

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position also reports deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The District reports deferred outflows of resources for the current year pension contributions, the net change in proportionate share of net pension liability, the difference between projected and actual earnings on pension plan investments specific to the net pension liability, and the difference between expected and actual experience in the measurement of the total pension liability.

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 the net change in proportionate share of net pension liability, the difference between projected and actual earnings on pension plan investments specific to the net pension liability, the difference between expected and actual experience in the measurement of the total pension liability, and the changes of assumptions.

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.

Spending Order Policy

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

Minimum Fund Balance Policy

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

Net Position

Net position represents the difference between assets and liabilities. Net position net of investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position 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 $21,669,037 of restricted net position.

Operating Revenues and Expenses

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

Interfund Activity

Transfers between governmental and business-type 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/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented in the financial statements. Interfund transfers are eliminated in the governmental and business-type activities columns of the Statement of Activities, except for the net residual amounts transferred between governmental and business-type 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.

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 1st of each year. The District governing board satisfied these requirements. The adopted budget is subject to amendment throughout the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption with the legal restriction that expenditures cannot exceed appropriations by major object account.

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

Property Tax

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

Change in Accounting Principles

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

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

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

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.

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.

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.

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.

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	$ 77,446,445
Business-type activities	689,233
Fiduciary funds	5,324,606
Total Deposits and Investments	$ 83,460,284

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

Cash on hand and in banks	$ 704,940
Cash in revolving	35,000
Investments	82,720,344
Total Deposits and Investments	$ 83,460,284

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.

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 Los Angeles County Investment Pool and purchasing 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.

Specific Identification

The District maintains an investment of $82,720,344 with the Los Angeles County Investment Pool that has an average weighted maturity of 608 days.

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 $262,593 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 Los Angeles County Treasury Investment Pool are not measured using the input levels above because the District's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at $1.00 net asset value per share.

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

Investment Type	Reported Amount	Uncategorized
Los Angeles County Investment Pool	$ 82,720,344	$ 82,720,344

NOTE 4 - RECEIVABLES

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

	General Fund	Building Fund	Non-Major Governmental Funds	Internal Service Fund	Total Governmental Activities	Enterprise Fund	Fiduciary Funds
Federal Government							
Categorical aid	$ 1,593,109	$ -	883,857	$ -	$ 2,476,966	$ -	$ 5,229,113
State Government							
Categorical aid	452,788	-	231,571	-	684,359	-	1,233,687
Lottery	1,419,647	-	-	-	1,419,647	-	-
Local Government							
Due from other districts	7,943	-	150,000	-	157,943	-	-
Interest	-	80,479	19,498	8,668	108,645	1,861	70
Other Local Sources	1,387,123	-	202,356	94,792	1,684,271	-	-
Total	$ 4,860,610	$ 80,479	$ 1,487,282	$ 103,460	$ 6,531,831	$ 1,861	$ 6,462,870

NOTE 5 - CAPITAL ASSETS

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

	Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	$ 2,886,240	$ -	$ -	$ 2,886,240
Construction in progress	22,334,145	22,451,168	16,222,231	28,563,082
Total Capital Assets Not Being Depreciated	25,220,385	22,451,168	16,222,231	31,449,322
Capital Assets Being Depreciated:				
Land improvements	77,958,492	369,396	-	78,327,888
Buildings and improvements	103,228,791	15,852,835	-	119,081,626
Furniture and equipment	12,855,379	70,987	-	12,926,366
Total Capital Assets Being Depreciated	194,042,662	16,293,218	-	210,335,880
Total Capital Assets	219,263,047	38,744,386	16,222,231	241,785,202
Less Accumulated Depreciation:				
Land improvements	30,875,751	3,814,881	-	34,690,632
Buildings and improvements	52,349,884	4,045,520	-	56,395,404
Furniture and equipment	11,442,411	311,741	-	11,754,152
Total Accumulated Depreciation	94,668,046	8,172,142	-	102,840,188
Governmental Activities Capital Assets, Net	$ 124,595,001	$ 30,572,244	$ 16,222,231	$ 138,945,014

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

Governmental Activities	
Instruction	$ 7,354,928
Home-to-school transportation	245,164
All other pupil services	326,886
Plant services	245,164
Total Depreciation Expenses All Activities	$ 8,172,142

NOTE 6 - INTERFUND TRANSACTIONS

Operating Transfers

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

	Transfer From	
Transfer To	General Fund	Enterprise Fund
General Fund	$ -	$ 100,000
Non-Major Governmental Funds	624,475	-
Total	$ 624,475	$ 100,000

The General Fund transferred $532,118 to the Special Reserve Fund for Capital Outlay Projects Non-Major Governmental Fund the RDA facilities portion.

The General Fund transferred $63,797 to the Child Development Non-Major Governmental Fund for Cal-Safe program.

The General Fund transferred $28,650 to the Cafeteria Non-Major Governmental Fund for bad debt expense.

The Enterprise Fund transferred $100,000 to the General Fund for excess costs related to the Kids Korner program.

NOTE 7 - ACCOUNTS PAYABLE

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

	General Fund	Building Fund	Non-Major Governmental Funds	Internal Service Fund	Total Governmental Activities
Salaries and benefits	$ 8,596,890	$ 4,112	$ 350,585	$ -	$ 8,951,587
LCFF apportionment	1,630,746	-	-	-	1,630,746
Supplies	1,063,883	2,361,011	17,462	-	3,442,356
Services	700,665	2,515,821	53,769	3,309,276	6,579,531
Construction	-	2,722,367	-	-	2,722,367
Due to SELPA	2,177,082	-	-	-	2,177,082
Other vendor payables	2,835,684	-	-	-	2,835,684
Total	$ 17,004,950	$ 7,603,311	$ 421,816	$ 3,309,276	$ 28,339,353

	Enterprise Fund	Fiduciary Funds
Salaries and benefits	$ 15,221	$ -
LCFF apportionment	-	-
Supplies	-	-
Services	18,831	-
Construction	-	-
Due to SELPA	-	-
Other vendor payables	-	46,772
Total	$ 34,052	$ 46,772

NOTE 8 - UNEARNED REVENUE

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

	General Fund
Federal financial assistance	$ 15,478
State categorical aid	33,924
Total	$ 49,402

NOTE 9 - LONG-TERM OBLIGATIONS

Summary

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

	Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016	Due in One Year
General obligation bonds	$ 130,746,434	$ 38,180,718	$ 5,795,000	$ 163,132,152	$ 6,345,000
Premium on issuance	7,584,930	2,711,727	728,954	9,567,703	-
Qualified zone academy bonds	3,264,693	-	341,886	2,922,807	358,980
Early retirement incentives	3,515,397	-	3,080,397	435,000	82,500
Capital lease	108,790	-	108,790	-	-
Other postemployment benefits	-	905,155	541,242	363,913	-
Accumulated vacation - net	1,422,001	83,228	-	1,505,229	-
Claims liability	1,584,970	1,225,751	797,460	2,013,261	797,460
	$ 148,227,215	$ 43,106,579	$ 11,393,729	$ 179,940,065	$ 7,583,940

Payments on the general obligation bonds are made by the Bond Interest and Redemption Fund with local revenues. Payments on qualified zone academy bonds are paid by the Building Fund. Payments on early retirement incentive are made by the General Fund. Payments on capital leases are paid by the General Fund and the Cafeteria Fund. Other postemployment benefits will be paid by the General Fund. The accrued vacation will be paid by the fund for which the employee worked. Claims liability will be paid by the Internal Service Fund.

General Obligation Bonds

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2015	Issued/ Accreted	Redeemed	Bonds Outstanding June 30, 2016
6/19/2003	6/1/2028	2.20%-5.20%	$ 30,000,000	$ 28,794,447	$ 702,827	$ 2,210,000	$ 27,287,274
10/3/2007	8/1/2032	3.50%-5.25%	18,999,949	21,181,987	477,891	1,305,000	20,354,878
12/6/2011	8/1/2026	3.00%-5.25%	13,495,000	12,215,000	-	570,000	11,645,000
5/9/2013	8/1/2052	2.00%-4.15%	30,000,000	28,750,000	-	1,185,000	27,565,000
5/9/2013	8/1/2031	2.00%-5.00%	40,500,000	39,805,000	-	525,000	39,280,000
7/9/2015	8/1/2044	2.00%-5.00%	37,000,000	-	37,000,000	-	37,000,000
				$ 130,746,434	$ 38,180,718	$ 5,795,000	$ 163,132,152

2001 Election General Obligation Bonds, Series B

On June 19, 2003, the District issued the $30,000,000 2001 Election General Obligation Bonds, Series B. The Series B bonds were issued as both current interest bonds and capital appreciation bonds, with the value of the capital appreciation bonds accreting $29,170,000, and an aggregate principal debt service balance of $59,170,000. The bonds have a final maturity to occur June 1, 2028, with interest rates of 2.20 to 5.20 percent. Proceeds from the sale of the bonds were used to improve health and safety conditions of neighborhood schools, relieve classroom overcrowding, replace inadequate electrical, heating and ventilation systems, roofs, plumbing, and sewer systems, renovate outdated science laboratories, and renovate and/or add classrooms and other facilities. At June 30, 2016, the principal balance outstanding of the 2001 Election General Obligation Bonds, Series B was $27,287,274. Unamortized premium received on issuance of the bonds amounted to $390,204 as of June 30, 2016.

2006 Election General Obligation Bonds, 2007 Series B

On October 3, 2007, the District issued the $18,999,949 2006 Election General Obligation Bonds, 2007 Series B. The 2007 Series B bonds were issued as capital appreciation bonds, with the value of the capital appreciation bonds accreting $19,460,051, and an aggregate principal debt service balance of $38,460,000. The bonds have a final maturity to occur on August 1, 2032, with interest rate yields of 3.50 to 5.25 percent. Proceeds from the sale of the bonds were used to repair or replace deteriorating plumbing, restrooms, heating, ventilation, and electrical systems; upgrade classroom technology and computers, construct new library/media centers, and upgrade inadequate classrooms, equipment, school facilities and grounds. At June 30, 2016, the principal balance outstanding of the 2006 Election General Obligation Bonds, 2007 Series B was $20,354,878. Unamortized premium received on issuance of the bonds amounted to $290,588 as of June 30, 2016.

2001 Election General Obligation Refunding Bonds, 2011 Series A

On December 6, 2011, the District issued the $13,495,000 2001 Election General Obligation Refunding Bonds, 2011 Series A. The bonds have a final maturity to occur on August 1, 2026, with interest rate yields of 3.00 to 5.25 percent. The net proceeds of $15,050,332 (representing the principal amount of $13,495,000 plus premium on issuance of $1,555,332) from the issuance were used to advance refund the District's outstanding 2001 Election General Obligation Bonds, Series A and to pay the costs of issuance associated with the refunding bonds, with the prepayment to occur on August 1, 2012. At June 30, 2016, the principal balance outstanding on the 2001 Election General Obligation Refunding Bonds, 2011 Series A was $11,645,000. Unamortized premium received on issuance of the bonds amounted to $1,192,419 as of June 30, 2016.

2012 General Obligation Bonds, Series A

On May 9, 2013, the District issued the $30,000,000 2012 General Obligation Bonds, Series A. The Series A bonds represent the first series of the authorized bonds to be issued under the authorization as approved by voters. The bonds were issued as current interest bonds. The bonds have a final maturity to occur August 1, 2052, with interest rate yields of 2.00 to 4.15 percent. Proceeds from the bonds will be used to finance repair, upgrading, acquisition, construction and equipping school property and facilities approved by the voters and pay costs associated with the issuance of the bonds. At June 30, 2016, the principal balance outstanding was $27,565,000. Unamortized premium received on issuance of the bonds amounted to $1,005,010 as of June 30, 2016.

2013 General Obligation Refunding Bonds

On May 9, 2013, the District issued the $40,500,000 2013 General Obligation Refunding Bonds. The bonds have a final maturity to occur on August 1, 2031, with interest rate yields of 2.00 to 5.00 percent. The net proceeds of $46,380,717 (representing the principal amount of $40,500,000 plus premium on issuance of $5,880,717) from the issuance were used to advance refund the District's outstanding 2006 General Obligation Bonds, 2006 Series A and to pay the costs of issuance associated with the refunding bonds, with the prepayment to occur on August 1, 2014. At June 30, 2016, the principal balance outstanding was $39,280,000. Unamortized premium received on issuance of the bonds amounted to $4,071,265 as of June 30, 2016.

2012 General Obligation Bonds, Series B

On July 9, 2015, the District issued the 2012 General Obligation Bonds, Series B in the amount of $37,000,000 with interest rate yields of 2.0 to 5.0 percent. The 2012 General Obligation Bonds, Series B have a final maturity to occur on August 1, 2044. Proceeds from the sale of the bonds will be used to finance the repair, upgrading, acquisition, construction and equipping of certain District property and facilities, and to pay the cost of issuing the bonds. At June 30, 2016, the principal balance outstanding was $37,000,000. Unamortized premium received on issuance of the bonds amounted to $2,618,217 as of June 30, 2016.

Debt Service Requirements to Maturity

The bonds mature through 2053 as follows:

Fiscal Year	Principal Including Accreted Interest To Date	Accreted Interest	Current Interest	Total
2017	$ 6,217,634	$ 127,366	$ 5,250,468	$ 11,595,468
2018	5,791,872	293,128	5,165,005	11,250,005
2019	5,223,998	471,002	5,086,580	10,781,580
2020	5,412,926	657,074	5,010,955	11,080,955
2021	5,583,502	866,498	4,917,255	11,367,255
2022-2026	32,528,383	7,501,617	22,739,314	62,769,314
2027-2031	33,751,680	8,848,320	17,933,404	60,533,404
2032-2036	16,292,157	5,167,843	13,283,225	34,743,225
2037-2041	13,105,000	-	10,587,425	23,692,425
2042-2046	23,775,000	-	6,396,225	30,171,225
2047-2051	10,015,000	-	2,432,588	12,447,588
2052-2053	5,435,000	-	249,863	5,684,863
Total	$ 163,132,152	$ 23,932,848	$ 99,052,307	$ 286,117,307

Qualified Zone Academy Bonds (QZAB)

On December 19, 2008, the District entered into a lease-lease back agreement whereby the District is leasing Fairvalley High School from the Covina-Valley Unified School District Facilities Finance Corporation in exchange for repaying the QZABs. The purpose of the agreement was to provide $5,000,000 for financing the cost of purchasing equipment and certain improvements to the property. The financing for the improvements is proved by the issuance of QZABs, pursuant to Section 1397E of the Internal Revenue Code. The District is required to make annual repayments, which will be invested in a special fund. The repayments, along with the interest earned, is expected to be sufficient to pay the remaining principal on the bonds. At June 30, 2016, the outstanding balance on the QZABs is $2,922,807.

Year Ending June 30,	Principal	Interest	Total
2017	$ 358,980	$ 29,228	$ 388,208
2018	376,929	25,638	402,567
2019	395,775	21,869	417,644
2020	415,564	17,911	433,475
2021	436,342	13,756	450,098
2022-2023	939,217	14,203	953,420
Total	$ 2,922,807	$ 122,605	$ 3,045,412

Early Retirement Incentives

During the 2007-2008 school year, the District adopted a supplemental retirement plan whereby certain eligible certificated and classified employees are provided an annuity to supplement the retirement benefits they are entitled to through their respective retirement systems. The criteria for participation were as follows: employees must be employed by the District as of February 12, 2008, eligible to retire under CalSTRS or CalPERS as of June 30, 2008, have resigned from the District after the completion of the 2007-2008 school year on or before June 30, 2008, have retired from CalSTRS or CalPERS no later than July 1, 2008, and have applied for benefits under this plan. The annuities offered to the employees are to be paid over a five-year period. The annuities, which were purchased for 102 employees, were purchased from Pacific Life Insurance Company.

During the 2010-2011 school year, the District adopted three additional early retirement incentives; STRS Golden Handshake, PERS Golden Handshake, and one other supplemental retirement program.

During the 2013-2014 school year, the District adopted an early retirement incentive: STRS Golden Handshake and PERS Golden Handshake. The incentives were provided for 52 employees.

As of June 30, 2016, the STRS and PERS Golden Handshake obligations have been paid in full by the District. The balance of the remaining obligations associated with the supplemental retirement plans was $435,000.

Capital Leases

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

	Equipment
Balance, July 1, 2015	$ 123,378
Payments	123,378
Balance, June 30, 2016	$ -

The capital leases have been paid in full as of June 30, 2016.

Other Postemployment Benefits (OPEB) Obligation (Asset)

The District's annual required contribution for the year ended June 30, 2016, was $964,501, and contributions made by the District during the year were $541,242. Interest on the net OPEB obligation and adjustments to the annual required contribution were $2,332 and $(3,371), respectively, which resulted in an increase to the net OPEB obligation of $422,220. As of June 30, 2016, the net OPEB obligation was $363,913. See Note 11 for additional information regarding the OPEB obligation and the postemployment benefits plan.

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2016, amounted to $1,505,229.

Claims Liability

Liabilities associated with workers' compensation claims are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNR). Claim liabilities are based upon estimated ultimate cost of settling the claims, considering recent claim settlement trends including the frequency and amount of payouts and other economic and social factors. The liability for workers' compensation claims is reported in the Internal Service Fund. The outstanding claims liability at June 30, 2016, amounted to $2,013,261, using a discount factor of two percent.

NOTE 10 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Building Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total
Nonspendable					
Revolving cash	$ 35,000	$ -	$ -	$ -	$ 35,000
Stores inventories	65,733	-	-	75,983	141,716
Prepaid expenditures	16,767	-	-	-	16,767
Total Nonspendable	117,500	-	-	75,983	193,483
Restricted					
Legally restricted programs	6,615,261	-	-	6,878,512	13,493,773
Capital projects	-	14,490,879	-	556,004	15,046,883
Debt services	-	-	8,048,198	-	8,048,198
Total Restricted	6,615,261	14,490,879	8,048,198	7,434,516	36,588,854
Assigned					
Adult education program	-	-		13,144	13,144
Deferred maintenance program	57,799	-	-	-	57,799
LCFF - supplemental/concentration	3,322,730	-	-	-	3,322,730
MAA	78,343	-	-	-	78,343
Saturday incentive monies	111,570	-	-	-	111,570
TIIG carryover	169,394	-	-	-	169,394
Textbook adoption	400,000	-	-	-	400,000
Mandated one-time	3,193,264	-	-	-	3,193,264
Capital projects	-	-	-	78,750	78,750
Total Assigned	7,333,100	-	-	91,894	7,424,994
Unassigned					
Reserve for economic uncertainties	4,089,391	-	-	-	4,089,391
Remaining unassigned	4,376,093	-	-	-	4,376,093
Total Unassigned	8,465,484	-	-	-	8,465,484
Total	$ 22,531,345	$ 14,490,879	$ 8,048,198	$ 7,602,393	$ 52,672,815

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

Plan Description

The postemployment benefit plan (the Plan) is a single-employer defined benefit healthcare plan administered by the Covina-Valley Unified School District. The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Membership of the Plan consists of 61 retirees and beneficiaries currently receiving benefits, 11 terminated plan members entitled to but not yet receiving benefits, and 892 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 Teachers Association (CEA), the local California Service Employees Association (CSEA), and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2015-2016, the District contributed $541,242 to the plan, all of which was used for current premiums.

Annual OPEB Cost and Net OPEB Obligation

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

Annual required contribution	$ 964,501
Interest on net OPEB obligation	2,332
Adjustment to annual required contribution	(3,371)
Annual OPEB cost (expense)	963,462
Contributions made	(541,242)
Increase in net OPEB obligation	422,220
Net OPEB asset, beginning of year	(58,307)
Net OPEB obligation, end of year	$ 363,913

Trend Information

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

Year Ended June 30,	Annual OPEB Cost	Actual Contribution	Percentage Contributed	Net OPEB (Asset)/Obligation
2014	$ 895,502	$ 699,635	78%	$ 100,851
2015	895,605	1,054,763	118%	(58,307)
2016	963,462	541,242	56%	363,913

Funded Status and Funding Progress

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Unprojected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
July 1, 2015	$ -	$ 8,819,112	$ 8,819,112	0%	$ 78,418,298	11%

Actuarial Methods and Assumptions

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

In the July 1, 2015, actuarial valuation, the unprojected unit credit method was used. The actuarial assumptions included a five percent investment rate of return (net of administrative expenses), based on the plan being funded in an irrevocable employee benefit trust invested in a combined equity and fixed income portfolio. Healthcare cost trend rates ranged from an initial five percent to an ultimate rate of eight percent. The cost trend rate used for the Dental and Vision programs was four percent. The UAAL is being amortized at a level dollar method. The remaining amortization period at June 30, 2016, was 23 years. The actuarial value of assets was not determined in this actuarial valuation.

NOTE 12 - RISK MANAGEMENT

Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During the fiscal year ending June 30, 2016, the District was self-insured for property and liability coverage, and participated in the Alliance of Schools for Cooperative Insurance Programs (ASCIP) risk management pool for amounts in excess of the District's member retention limit $25,000 for property and liability claims.

Workers' Compensation

For the fiscal year of 2015-2016, the District was self-funded for its workers' compensation coverage. The workers' compensation experience of the District was calculated and applied to a premium rate, which was utilized to charge funds for the administration of the program. The District's self-insured retention limit for the 2015-2016 fiscal year was $250,000. Excess liability coverage for workers' compensation claims is provided by Schools Excess Liability Fund (SELF) public entity risk pool, through ASCIP.

Employee Medical Benefits

The District has contracted with various vendors to provide employee health benefits through the purchase of commercial insurance. Kaiser and Anthem Blue Cross provide medical care, Delta Dental and Delta Care provide dental care, VSP provides vision care and Mutual of Omaha provides life insurance. In addition, the District has contracted with Southern California Schools Employee Benefits Association (SCSEBA), a joint powers authority, to provide employee medical benefits. SCSEBA obtains benefit programs on behalf of the District through the purchase of commercial insurance. Rates are set through an annual calculation process.

Claims Liabilities

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

Unpaid Claims Liabilities

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

	Workers' Compensation
Liability Balance, July 1, 2014	$ 1,840,334
Claims and changes in estimates	543,459
Claims payments	798,823
Liability Balance, June 30, 2015	1,584,970
Claims and changes in estimates	1,225,751
Claims payments	797,460
Liability Balance, June 30, 2016	$ 2,013,261
Assets available to pay claims at June 30, 2016	$ 6,281,005

NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS

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

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

Pension Plan	Collective Net Pension Liability	Collective Deferred Outflows of Resources	Collective Deferred Inflows of Resources	Collective Pension Expense
CalSTRS	$ 90,277,985	$ 23,286,163	$ 15,980,748	$ 8,393,772
CalPERS	22,605,993	7,107,681	6,728,024	1,756,757
Total	$ 112,883,978	$ 30,393,844	$ 22,708,772	$ 10,150,529

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

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

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

Benefits Provided

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

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

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

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

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

Contributions

Required member, District and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven year period. The contribution rates for each plan for the year ended June 30, 2016, are presented above and the District's total contributions were $6,234,213.

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	$	90,277,985
State's proportionate share of the net pension liability associated with the District		47,747,102
Total	$	138,025,087

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 0.1341 percent and 0.1182 percent, resulting in a net increase in the proportionate share of 0.0159 percent.

For the year ended June 30, 2016, the District recognized pension expense of $8,393,772. In addition, the District recognized pension expense and revenue of $3,698,549 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	$ 6,234,213	$ -
Net change in proportionate share of net pension liability	9,938,891	-
Difference between projected and actual earnings on pension plan investments	7,113,059	14,472,182
Differences between expected and actual experience in the measurement of the total pension liability	-	1,508,566
Total	$ 23,286,163	$ 15,980,748

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	$ (3,045,796)
2018	(3,045,796)
2019	(3,045,796)
2020	1,778,265
Total	$ (7,359,123)

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2017	$ 1,405,054
2018	1,405,054
2019	1,405,054
2020	1,405,054
2021	1,405,054
Thereafter	1,405,055
Total	$ 8,430,325

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

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

Discount Rate

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

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

Discount Rate	Net Pension Liability
1% decrease (6.60%)	$ 136,312,731
Current discount rate (7.60%)	90,277,985
1% increase (8.60%)	52,019,397

California Public Employees Retirement System (CalPERS)

Plan Description

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

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

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of service credit, a benefit factor and the member's final compensation. Members hired on or before December 31, 2012, with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. Members hired on or after January 1, 2013, with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The Basic Death Benefit is paid to any member's beneficiary if the member dies while actively employed. An employee's eligible survivor may receive the 1957 Survivor Benefit if the member dies while actively employed, is at least age 50 (or 52 for members hired on or after January 1, 2013), and has at least five years of credited service. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law. The CalPERS provisions and benefits in effect at June 30, 2016, are summarized as follows:

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

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 $2,102,921.

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 $22,605,993. 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 0.1534 percent and 0.1556 percent, resulting in a net decrease in the proportionate share of 0.0022 percent.

For the year ended June 30, 2016, the District recognized pension expense of $1,524,789. 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	$ 2,102,921	$ -
Net change in proportionate share of net pension liability	-	852,206
Difference between projected and actual earnings on pension plan investments	3,712,794	4,486,842
Differences between expected and actual experience in the measurement of the total pension liability	1,291,966	-
Changes of assumptions	-	1,388,976
Total	$ 7,107,681	$ 6,728,024

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	$ (567,416)
2018	(567,416)
2019	(567,416)
2020	928,200
Total	$ (774,048)

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2017	$ (420,903)
2018	(420,903)
2019	(107,409)
Total	$ (949,215)

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. 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%)	$ 36,793,137
Current discount rate (7.65%)	22,605,993
1% increase (8.65%)	10,808,435

Tax Deferred Annuity/Social Security

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) must be covered by Social Security or an alternative plan. The District has elected to use Social Security as its alternative plan. District and employee contributions are determined by statute.

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 $4,077,676 (7.12589 percent of annual payroll). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been included in the calculation of available reserves, and have been included in the final budgeted amounts reported in the *General Fund - Budgetary Comparison Schedule* but not in the original budgeted amounts.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

Grants

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

Litigation

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

Construction Commitments

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

Capital Project	Remaining Construction Commitment	Expected Date of Completion
Valencia Adult Transition	$ 159,407	June 30, 2017
District Field Stadium	1,774,134	June 30, 2017
South Hills Modernization	168,291	June 30, 2017
Northview Aquatic Center	1,951,694	June 30, 2017
District Wide Infastructure	352,603	June 30, 2017
Northview Modernization	268,336	June 30, 2017
	$ 4,674,465	

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

The District is a member of the Southern California Schools Employee Benefits Association (SCSEBA), joint power authority, and the Alliance of Schools for Cooperative Insurance Programs (ASCIP) public entity risk pool and, through participation in ASCIP, the Schools Excess Liability Fund (SELF) public entity risk pool. The District pays an annual premium to SCSEBA and ASCIP for its medical and property/liability and workers' compensation excess liability coverage, respectively. The relationships between the District and the pools 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 available from the respective entities.

During the year ended June 30, 2016, the District made a payment of $13,437,373 and $941,393 to SCSEBA and ASCIP, respectively, for services received.

NOTE 16 - SUBSEQUENT EVENTS

2012 General Obligation Bonds, Series C

On August 10, 2016, the District issued the $12,000,000 2012 General Obligation Bonds, Series C. The bonds were issued as current interest bonds. The bonds were issued at an aggregate price of $12,783,927 (representing the principal amount of $12,000,000 and premium of 952,509, less cost of issuance of $168,582). The bonds have a final maturity to occur on August 1, 2045, with interest rates yields ranging from 3.00 to 4.00 percent. Proceeds from the sale of the bonds will be used to finance the repair, upgrading, acquisition, construction and equipping of certain District property and facilities and pay the cost of issuing the Bonds.

2016 General Obligation Refunding Bonds (2019 Crossover)

On August 10, 2016, the District issued the $16,410,000 2016 General Obligation Refunding Bonds. The bonds were issued as current interest bonds. The bonds were issued at an aggregate price of $19,714,714 (representing the principal amount of $16,410,000 and premium of 3,512,981, less cost of issuance of $208,267). The bonds have a final maturity to occur on August 1, 2032, with interest rates yields ranging from 3.00 to 5.00 percent. Proceeds from the sale of the bonds will be used to advance refund, on a crossover basis, certain of the District's outstanding 2006 Election General Obligation Bonds, 2007 Series B and pay the cost of issuing the Refunding Bonds.

2012 General Obligation Bonds, Series C-1 (Qualified Zone Academy Bonds)

On August 10, 2016, the District issued the $6,000,000 2016 General Obligation Bonds, Series C-1. The bonds were issued at an aggregate price of $5,900,434 (representing the principal amount of $6,000,000 less cost of issuance of $99,566). The bonds have a final maturity to occur on August 1, 2024. Proceeds from the sale of the bonds will be used to finance the repair, upgrading and equipping of certain District property and facilities and pay the cost of issuing the Bonds.

NOTE 17 – RESTATEMENT OF PRIOR YEAR FUND BALANCES

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

General Fund	
Fund Balance - Beginning	$ 15,314,005
Change in accounting principles to conform to GASB Statement No. 54	(16,669)
Fund Balance - Beginning, as restated	$ 15,297,336
Non-Major Governmental Funds	
Fund Balance - Beginning	$ 6,079,484
Change in accounting principles to conform to GASB Statement No. 54	16,669
Fund Balance - Beginning, as restated	$ 6,096,153

REQUIRED SUPPLEMENTARY INFORMATION

COVINA-VALLEY UNIFIED SCHOOL DISTRICT

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

	Budgeted Amounts		Actual	Variances - Positive (Negative) Final
	Original	Final	(GAAP Basis)	to Actual
REVENUES				
Local Control Funding Formula	$ 107,645,394	$ 107,505,931	$ 107,598,928	$ 92,997
Federal sources	5,399,033	6,869,349	6,431,318	(438,031)
Other State sources	20,620,955	24,669,215	23,477,758	(1,191,457)
Other local sources	4,649,598	4,600,452	5,939,039	1,338,587
Total Revenues [1]	138,314,980	143,644,947	143,447,043	(197,904)
EXPENDITURES				
Current				
Certificated salaries	60,688,847	59,914,961	59,891,084	23,877
Classified salaries	16,969,477	18,674,523	18,688,043	(13,520)
Employee benefits	24,618,892	32,254,726	32,122,145	132,581
Books and supplies	7,891,332	8,432,275	5,866,050	2,566,225
Services and operating expenditures	11,322,027	13,552,411	13,019,907	532,504
Capital outlay	16,452	106,988	70,987	36,001
Other outgo	4,605,705	5,152,263	6,030,253	(877,990)
Total Expenditures [1]	126,112,732	138,088,147	135,688,469	2,399,678
Excess of Revenues Over Expenditures	12,202,248	5,556,800	7,758,574	2,201,774
Other Financing Sources (Uses)				
Transfers in	-	100,000	100,000	-
Transfers out	-	(93,262)	(624,565)	(531,303)
Net Financing Sources (Uses)	-	6,738	(524,565)	(531,303)
NET CHANGE IN FUND BALANCES	12,202,248	5,563,538	7,234,009	1,670,471
Fund Balance - Beginning	15,297,336	15,297,336	15,297,336	-
Fund Balance - Ending	$ 27,499,584	$ 20,860,874	$ 22,531,345	$ 1,670,471

[1] On behalf payments of $4,077,676 are included in the actual revenues, expenditures, and final budget, but have not been included in the original budget. In addition, due to the consolidation of Fund 14, Deferred Maintenance Fund, for reporting purposes into the General Fund, additional fund balance pertaining to this fund is included in the Actual (GAAP Basis) fund balances, but is not included in the original and final General Fund budgets.

See accompanying note to required supplementary information.

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Unprojected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
July 1, 2011	$ -	$ 6,737,951	$ 6,737,951	0%	$ 70,102,418	10%
July 1, 2013	-	8,355,091	8,355,091	0%	74,920,958	11%
July 1, 2015	-	8,819,112	8,819,112	0%	78,418,298	11%

See accompanying note to required supplementary information.

COVINA-VALLEY UNIFIED SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT PROPORTIONATE SHARE OF THE NET PENSION LIABILTY
FOR THE YEAR ENDED JUNE 30, 2016

	2016	2015
CalSTRS		
District's proportion of the net pension liability	0.1341%	0.1182%
District's proportionate share of the net pension liability	$ 90,277,985	$ 69,056,755
State's proportionate share of the net pension liability associated with the District	47,747,102	41,699,450
Total	$ 138,025,087	$ 110,756,205
District's covered - employee payroll	$ 59,108,536	$ 55,766,890
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	152.73%	123.83%
Plan fiduciary net position as a percentage of the total pension liability	74%	77%
CalPERS		
District's proportion of the net pension liability	0.1534%	0.1556%
District's proportionate share of the net pension liability	$ 22,605,993	$ 17,659,852
District's covered - employee payroll	$ 17,503,424	$ 16,402,026
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	129.15%	107.67%
Plan fiduciary net position as a percentage of the total pension liability	79%	83%

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

See accompanying note to required supplementary information.

COVINA-VALLEY UNIFIED SCHOOL DISTRICT

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

	2016	2015
CalSTRS		
Contractually required contribution	$ 6,234,213	$ 5,248,838
Contributions in relation to the contractually required contribution	6,234,213	5,248,838
Contribution deficiency (excess)	$ -	$ -
District's covered - employee payroll	$ 58,100,774	$ 59,108,536
Contributions as a percentage of covered - employee payroll	10.73%	8.88%
CalPERS		
Contractually required contribution	$ 2,102,921	$ 2,060,153
Contributions in relation to the contractually required contribution	2,102,921	2,060,153
Contribution deficiency (excess)	$ -	$ -
District's covered - employee payroll	$ 17,750,663	$ 17,503,424
Contributions as a percentage of covered - employee payroll	11.847%	11.771%

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

See accompanying note to required supplementary information.

NOTE OF REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2016

NOTE 1 - PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

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

Schedule of Other Postemployment Benefits (OPEB) Funding Progress

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

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

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

Schedule of District Contributions

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

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

COVINA-VALLEY UNIFIED SCHOOL DISTRICT

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

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education (CDE)			
No Child Left Behind Act (NCLB)			
Title I, Part A - Basic Grants, Low Income and Neglected	84.010	14329	$ 1,996,106
Title I, Part G - Advance Placement Test Fee Reimbursement Program	84.330B	14831	33,773
Title II, Part A - Improving Teacher Quality	84.367	14341	410,139
English Language Acquisition Grants:			
Title III - Immigration Education Program	84.365	15146	2,114
Title III - Limited English Proficiency	84.365	14346	53,337
Subtotal English Language Acquisition Grants Cluster			55,451
Title X, McKinney-Vento Homeless Children Assistance	84.196	14332	270
Carl D. Perkins Career and Technical Education Act			
Career and Technical Education Cluster			
Career and Technical Education - Secondary, Section 131	84.048	14894	95,470
Career and Technical Education - Adult, Section 132	84.048	14893	42,883
Subtotal - Career and Technical Education Cluster			138,353
Passed Through East San Gabriel Valley Special Education Local Plan Areas (SELPA) to Covina-Valley Unified School District			
Special Education (IDEA) Cluster:			
Local Assistance	84.027	13379	2,383,881
Private School Grant, Part B Section 611	84.027	10115	58,614
Preschool Grant, Part B, Section 619	84.173	13430	60,072
Preschool Local Grant, Part B	84.027A	13682	82,632
Mental Health Allocation Part B	84.027	14468	136,734
Preschool Staff Development	84.173A	13431	894
Supporting Inclusive Practices	84.027A	13693	43,349
Subtotal Special Education (IDEA) Cluster			2,766,176
Early Intervention Programs, Part C	84.181	23761	170,597
State Improvement Grant	84.323	14920	500
Passed Through East San Gabriel Valley SELPA to Other Districts			
Special Education (IDEA) Cluster:			
Local Assistance	84.027	13379	15,340,812
Preschool Grant, Part B, Section 619	84.173	13430	340,215
Preschool Local Grant, Part B	84.027A	13682	492,495
Mental Health Allocation Part B	84.027	14468	1,224,413
Preschool Staff Development	84.173A	13431	3,057
Subtotal Special Education (IDEA) Cluster			17,400,992
Early Intervention Programs, Part C	84.181	23761	113,731
Total U.S. Department of Education			23,086,088

See accompanying note to supplementary information.

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

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U. S. DEPARTMENT OF HEALTH SERVICES			
Passed Through California Department of Health Services			
Medi-Cal Assistance Program:			
Medi-Cal Billing Options	93.778	10013	$ 541,821
Medi-Cal Administrative Activities	93.778	10060	261,142
Subtotal Medi-Cal Assistance Program			802,963
Child Development: Federal Child Care, Center-Based	93.575	13609 and 15136	223,132
Total U.S. Department of Health and Human Services			1,026,095
U.S. DEPARTMENT OF AGRICULTURE			
Passed through CDE			
Child Nutrition Cluster:			
National School Lunch Program	10.555	13523	3,124,834
Especially Needy Breakfast	10.553	13526	1,099,248
Seamless Summer Feeding Option	10.559	13004	216,915
Summer Food Service Program	10.559	13004	126,333
Meal Supplement	10.556	13392	69,154
Food Distribution	10.555	13523	380,285
Subtotal Child Nutrition Cluster			5,016,769
Fresh Fruit and Vegetable Program	10.582	14968	6,605
Total U.S. Department of Agriculture			5,023,374
U.S. DEPARTMENT OF LABOR			
Passed Through East San Gabriel Valley SELPA			
Youth Career Connect Program	17.274	YC-25405-14-60-A-6	76,923
Total Federal Programs			$ 29,212,480

See accompanying note to supplementary information.

COVINA-VALLEY UNIFIED SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2016

ORGANIZATION

The Covina-Valley Unified School District (the District) was unified on December 15, 1959 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 ten elementary schools, three middle schools, three high schools, an alternative high school, a children's center program and adult education centers.

GOVERNING BOARD

MEMBER	OFFICE	TERM EXPIRES
Richard M. White	President	2017
Charles M. Kemp	Vice President	2017
Sue L. Maulucci	Clerk	2019
Darrell A. Myrick	Member	2019
Sonia Frasquillo	Member	2019

ADMINISTRATION

NAME	TITLE
Richard M. Sheehan, Ed.D.	Superintendent of Schools
Michelle Doll, Ed.D.	Assistant Superintendent, Personnel Services
Elizabeth Eminhizer	Assistant Superintendent, Educational Services
Robert McEntire	Chief Business Officer

See accompanying note to supplementary information.

COVINA-VALLEY UNIFIED SCHOOL DISTRICT

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

	Final Report Second Period Report	Final Report Annual Report
Regular ADA		
Transitional kindergarten through third	3,104.43	3,107.87
Fourth through sixth	2,454.56	2,450.59
Seventh and eighth	1,621.44	1,619.61
Ninth through twelfth	4,397.09	4,377.86
Total Regular ADA	11,577.52	11,555.93
Extended Year Special Education		
Transitional kindergarten through third	5.18	5.18
Fourth through sixth	6.90	6.90
Seventh and eighth	1.74	1.74
Ninth through twelfth	19.14	19.14
Total Extended Year Special Education	32.96	32.96
Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	3.99	3.77
Fourth through sixth	5.36	4.93
Seventh and eighth	4.75	4.28
Ninth through twelfth	12.18	11.67
Total Special Education, Nonpublic, Nonsectarian Schools	26.28	24.65
Extended Year Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	0.07	0.07
Fourth through sixth	0.23	0.23
Seventh and eighth	0.29	0.29
Ninth through twelfth	0.33	0.33
Total Extended Year Special Education, Nonpublic, Nonsectarian Schools	0.92	0.92
Community Day School		
Fourth through sixth	0.22	0.37
Seventh and eighth	0.27	0.86
Ninth through twelfth	2.24	2.39
Total Community Day School	2.73	3.62
Total ADA	11,640.41	11,618.08

See accompanying note to supplementary information.

COVINA-VALLEY UNIFIED SCHOOL DISTRICT

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

Grade Level	1986-87 Minutes Requirement	2015-16 Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
Kindergarten	36,000	43,950	180	-	Complied
Grades 1 - 3	50,400				
Grade 1		50,424	180	-	Complied
Grade 2		50,424	180	-	Complied
Grade 3		50,424	180	-	Complied
Grades 4 - 6	54,000				
Grade 4		54,060	180	-	Complied
Grade 5		54,060	180	-	Complied
Grade 6		55,566	180	-	Complied
Grades 7 - 8	54,000				
Grade 7		55,566	180	-	Complied
Grade 8		55,566	180	-	Complied
Grades 9 - 12	64,800				
Grade 9		65,875	180	-	Complied
Grade 10		65,875	180	-	Complied
Grade 11		65,875	180	-	Complied
Grade 12		65,875	180	-	Complied

See accompanying note to supplementary information.

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.

	Building Fund
FUND BALANCE	
Balance, June 30, 2016, Unaudited Actuals	$ 14,261,472
Decrease in:	
Accounts Payable	229,407
Balance, June 30, 2016, Audited Financial Statements	$ 14,490,879

See accompanying note to supplementary information.

COVINA-VALLEY UNIFIED SCHOOL DISTRICT

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

	(Budget) 2017 [1]	2016	2015	2014
GENERAL FUND [4]				
Revenues	$ 141,295,184	$ 143,447,043	$ 124,559,365	$ 118,395,558
Other sources	100,000	100,000	-	201,085
Total Revenues and Other Sources	141,395,184	143,547,043	124,559,365	118,596,643
Expenditures	141,491,179	135,688,469	126,200,148	120,986,952
Other uses and transfers out	42,388	624,565	2,363,910	1,465,808
Total Expenditures and Other Uses	141,533,567	136,313,034	128,564,058	122,452,760
INCREASE (DECREASE) IN FUND BALANCE	$ (138,383)	$ 7,234,009	$ (4,004,693)	$ (3,856,117)
ENDING FUND BALANCE	$ 22,335,163	$ 22,473,546	$ 15,239,537	$ 19,244,230
AVAILABLE RESERVES [2]	$ 6,960,267	$ 8,465,484	$ 9,200,081	$ 9,777,307
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO [3]	4.92%	6.21%	7.33%	8.18%
LONG-TERM OBLIGATIONS	N/A	$ 179,940,065	$ 148,227,215	$ 154,586,239
K-12 AVERAGE DAILY ATTENDANCE AT P-2[4]	11,274	11,640	11,985	12,289

The General Fund balance has increased by $3,229,316 over the past two years. The fiscal year 2016-2017 budget projects a decrease of $138,383 (0.62 percent). For a district this size, the State recommends available reserves of at least three percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating deficits in two of the past three years and anticipates incurring an operating deficit during the 2016-2017 fiscal year. Total long-term obligations have increased by $25,353,826 over the past two years.

Average daily attendance has decreased by 649 over the past two years. An additional decline of 366 ADA is anticipated during fiscal year 2016-2017.

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

[2] Available reserves consist of all unassigned fund balances including all amounts reserved for economic uncertainties contained with the General Fund.

[3] On behalf payments of $3,056,868 and $2,915,876 have been excluded from the calculation of available reserves for the fiscal years ending June 30, 2015 and 2014.

[4] General Fund amounts do not include activity related to the consolidation of the Fund 14, Deferred Maintenance Fund, as required by GASB Statement No. 54.

See accompanying note to supplementary information.

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

	Adult Education Fund	Child Development Fund	Cafeteria Fund
ASSETS			
Deposits and investments	$ 198,838	$ (80,865)	$ 5,709,700
Receivables	387,683	250,950	847,166
Stores inventories	29,554	-	46,429
Total Assets	$ 616,075	$ 170,085	$ 6,603,295
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	$ 213,692	$ 84,116	$ 124,008
Fund Balances:			
Nonspendable	29,554	-	46,429
Restricted	359,685	85,969	6,432,858
Assigned	13,144	-	-
Total Fund Balances	402,383	85,969	6,479,287
Total Liabilities and Fund Balances	$ 616,075	$ 170,085	$ 6,603,295

See accompanying note to supplementary information.

Capital Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Total Non-Major Governmental Funds
$ 554,521	$ 78,750	$ 6,460,944
1,483	-	1,487,282
-	-	75,983
$ 556,004	$ 78,750	$ 8,024,209
$ -	$ -	$ 421,816
-	-	75,983
556,004	-	7,434,516
-	78,750	91,894
556,004	78,750	7,602,393
$ 556,004	$ 78,750	$ 8,024,209

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

	Adult Education Fund	Child Development Fund	Cafeteria Fund
REVENUES			
Federal sources	$ 42,883	$ 223,132	$ 5,023,374
Other State sources	2,925,826	1,368,520	384,601
Other local sources	1,032,234	47,442	780,138
Total Revenues	4,000,943	1,639,094	6,188,113
EXPENDITURES			
Current			
Instruction	1,692,908	1,215,730	-
Instruction-related activities:			
Supervision of instruction	5,222	110,128	-
School site administration	1,081,235	62,141	-
Pupil services:			
Food services	-	1,498	5,313,836
All other pupil services	144,938	-	-
Administration:			
All other administration	255,884	107,081	266,804
Plant services	435,042	137,955	33,871
Principal	-	-	2,525
Interest and other	-	-	1
Total Expenditures	3,615,229	1,634,533	5,617,037
Excess (Deficiency) of Revenue Over Expenditures	385,714	4,561	571,076
Other Financing Sources			
Transfers in	-	63,797	28,650
NET CHANGE IN FUND BALANCES	385,714	68,358	599,726
Fund Balance - Beginning	16,669	17,611	5,879,561
Fund Balance - Ending	$ 402,383	$ 85,969	$ 6,479,287

See accompanying note to supplementary information.

Capital Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Total Non-Major Governmental Funds
$ -	$ -	$ 5,289,389
-	-	4,678,947
375,550	-	2,235,364
375,550	-	12,203,700
-	-	2,908,638
-	-	115,350
-	-	1,143,376
-	-	5,315,334
-	-	144,938
1,858	-	631,627
-	453,368	1,060,236
-	-	2,525
-	-	1
1,858	453,368	11,322,025
373,692	(453,368)	881,675
-	532,118	624,565
373,692	78,750	1,506,240
182,312	-	6,096,153
$ 556,004	$ 78,750	$ 7,602,393

COVINA-VALLEY UNIFIED SCHOOL DISTRICT

GENERAL FUND SELECTED FINANCIAL INFORMATION
THREE-YEAR SUMMARY OF REVENUES, EXPENDITURES, AND CHANGES OF FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2016

(Amounts in thousands)	Actual Results for the Years					
	2015-2016		2014-2015		2013-2014	
	Amount	Percent of Revenue	Amount	Percent of Revenue	Amount	Percent of Revenue
REVENUES						
Federal revenue	$ 6,431	4.5	$ 6,791	5.4	$ 5,714	4.8
State and local revenue included in Local Control Funding Formula	107,599	75.0	96,382	77.4	87,712	74.1
Other State revenue	23,478	16.4	15,283	12.3	18,884	16.0
Other local revenue	5,939	4.1	3,209	2.6	3,323	2.8
Tuition and transfers in	-	0.0	2,894	2.3	2,763	2.3
Total Revenues	143,447	100.0	124,559	100.0	118,396	100.0
EXPENDITURES						
Salaries and Benefits						
Certificated salaries	59,891	41.8	57,536	46.2	54,688	46.2
Classified salaries	18,688	13.0	17,702	14.2	17,554	14.8
Employee benefits	32,122	22.4	25,899	20.8	24,536	20.7
Total Salaries and Benefits	110,701	77.2	101,137	81.2	96,778	81.7
Books and supplies	5,866	4.1	6,960	5.6	4,151	3.5
Contracts and operating expenses	13,020	9.0	12,784	10.2	11,753	9.9
Capital outlay	70	0.1	768	0.6	1,594	1.4
Other outgo	6,030	4.2	4,551	3.7	6,711	5.7
Total Expenditures	135,687	94.6	126,200	101.3	120,987	102.2
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	7,760	5.4	(1,641)	(1.3)	(2,591)	(2.2)
OTHER FINANCING SOURCES (USES)						
Operating transfers, net	(525)	(0.4)	(2,364)	(1.9)	(1,265)	(1.1)
INCREASE (DECREASE) IN FUND BALANCE	7,235	5.1	(4,005)	(3.2)	(3,856)	(3.3)
FUND BALANCE, BEGINNING	15,239		19,244		23,100	
FUND BALANCE, ENDING	$ 22,474		$ 15,239		$ 19,244	

NOTE: General Fund amounts do not include activity related to the consolidation of Fund 14, Deferred Maintenance Fund.

See accompanying note to supplementary information.

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 Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances and the revenue specific to the Special Education Pass-Through Fund, and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts consist primarily of Medi-Cal Billing Options funds that have been recorded in the current period that have not been expended as of June 30, 2016. These unspent balances are reported as legally restricted balances within the General Fund.

Description	CFDA Number	Amount
Total Federal Revenues From the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances and the revenue specific to the Special Education Pass-Through Fund:		$ 29,235,430
Medi-Cal Billing Options	93.778	(22,950)
Total Schedule of Expenditures of Federal Awards		$ 29,212,480

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 1986-87 requirements, as required by *Education Code* Section 46201.

Reconciliation of Annual Financial and Budget Report With Audited Financial Statements

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

Schedule of Financial Trends and Analysis

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

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

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

General Fund Selected Financial Information

This schedule provides a comparison of revenues and expenditures as a percentage of total revenue for the General Fund for the past three years.

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
Covina-Valley Unified School District
Covina, 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, the business-type activities, each major fund, and the aggregate remaining fund information of Covina-Valley 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 Covina-Valley Unified School District's basic financial statements, and have issued our report thereon dated December 12, 2016.

Internal Control Over Financial Reporting

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

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

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

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Covina-Valley 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 Covina-Valley Unified School District in a separate letter dated December 12, 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.

VAVRINEK, TRINE, DAY + CO. LLP

Rancho Cucamonga, California
December 12, 2016

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

Governing Board
Covina-Valley Unified School District
Covina, California

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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Opinion on Each Major Federal Program

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

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2016-001 and 2016-002. Our opinion on each major Federal program is not modified with respect to these matters.

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

Report on Internal Control Over Compliance

Management of Covina-Valley 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 Covina-Valley 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 Covina-Valley Unified School District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2016-001 and 2016-002 that we consider to be significant deficiencies.

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

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

Vavrinek, Trine, Day & Co. LLP

Rancho Cucamonga, California
December 12, 2016

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
Covina-Valley Unified School District
Covina, California

Report on State Compliance

We have audited Covina-Valley Unified School District's (the District) compliance with the types of compliance requirements as identified in the *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* that could have a direct and material effect on each of the Covina-Valley 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 Covina-Valley 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 Covina-Valley Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of Covina-Valley Unified School District's compliance with those requirements.

Basis for Qualified Opinion on Unduplicated Local Control Funding Formula Pupil Counts

As described in the accompanying schedule of findings and questioned costs, Covina-Valley Unified School District did not comply with requirements regarding Unduplicated Local Control Funding Formula Pupil Counts as identified in finding 2016-003. Compliance with such requirements is necessary, in our opinion, for Covina-Valley Unified School District to comply with the requirements applicable to that program.

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Qualified Opinion on Unduplicated Local Control Funding Formula Pupil Counts

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Covina-Valley 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, Covina-Valley 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 Covina-Valley Unified School District's compliance with the State laws and regulations applicable to the following items:

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

	Procedures Performed
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Independent Study - Course Based	No, see below
Immunizations	Yes, see below
CHARTER SCHOOLS	
Attendance	No, see below
Mode of Instruction	No, see below
Non Classroom-Based Instruction/Independent Study for Charter Schools	No, see below
Determination of Funding for Non Classroom-Based Instruction	No, see below
Annual Instruction Minutes Classroom-Based	No, see below
Charter School Facility Grant Program	No, see below

We did not perform testing for Independent Study because the ADA for this program was below the materiality threshold as indicated in the 2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting.

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

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

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

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

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

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

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

Vavrinek, Trine, Day + Co. LLP

Rancho Cucamonga, California
December 12, 2016

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

COVINA-VALLEY UNIFIED SCHOOL DISTRICT

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

FINANCIAL STATEMENTS

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness identified?	No
Significant deficiency identified?	None reported
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major Federal programs:	
Material weakness identified?	No
Significant deficiency identified?	Yes
Type of auditor's report issued on compliance for major Federal programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section 200.516(a) of the Uniform Guidance?	Yes

Identification of major Federal programs:

CFDA Numbers	Name of Federal Program or Cluster
84.010	Title I, Part A - Basic Grants, Low Income and Neglected
84.027, 840.27A, 84.173, 84.173A	Special Education (IDEA) Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	$ 876,374
Auditee qualified as low-risk auditee?	Yes

STATE AWARDS

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

Unmodified for all programs except for the following program/s which was/were qualified:

Name of Program
Unduplicated Local Control Funding Formula Pupil Counts

FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016

None reported.

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

Five Digit Code	AB 3627 Finding Type
50000	Federal Compliance

2016-001 50000

Federal Program Affected

Title: Title 1, Part A- Basic Grants, Low Income and Neglected
CFDA: 84.010
Pass-Through Agency: California Department of Education
Federal Agency: U.S. Department of Education

Criteria or Specific Requirements

Per Title 34, Code of Federal Regulations, Part 200, Subpart A, Section 200.78 (a)(1), a LEA must allocate funds under subpart A of part 200 to school attendance areas and schools, identified as eligible and selected to participate under section 1113(a) or (b) of the ESEA, in rank order on the basis of the total number of children from low-income families in each area or school.

Condition

Eligibility
During 2015-2016 fiscal year, the District failed to utilize the appropriate and relevant poverty measure when determining the low income students' percentages. This resulted from the District not updating the prepopulated prior year data when filling out the Consolidated Application for Eligibility requirement. As a result, the District did not fund three schools that would have been eligible for Title I funding if the most current data had been used.

Reporting
Since the District failed to utilize the most recent poverty data in determining eligibility for Title I, the District also submitted incorrect information to California Department of Education through the Consolidated Application which resulted in noncompliance with Reporting requirement.

Questioned Costs

There were no direct questioned costs associated with the condition identified.

Context

The condition was identified as a result of the auditor's inquiry with the District's Curriculum & Instruction personnel and through the review of the District's 2015-2016 fiscal year Consolidated Application related to the Eligibility determination. The auditor identified that the District was utilizing the 2012-2013 fiscal year census data.

Effect

The District has not complied with the requirements identified in Title 34, Code of Federal Regulations, Part 200, Subpart A, Section 200.78 (a)(1).

Cause

The condition identified appears to have materialized due to the District's lack of awareness of the requirements under Title 34, Code of Federal Regulations, Part 200, Subpart A, Section 200.78 (a)(1).

Recommendation

The District should review the requirements stated in Title 34, Code of Federal Regulations, Part 200, Subpart A, Section 200.78 (a)(1) and implement a procedure to address the deficiency currently identified with the District's eligibility requirement. The District should draft and adopt necessary procedures to comply with the requirements. Specifically, we recommend the District establish a proper review control to mitigate the risk of noncompliance.

Corrective Action Plan

The District reviewed the requirements stated in Title 34, Code of Federal Regulations, Part 200, Subpart A, Section 200.78 (a)(1) and implemented a procedure to address the deficiency currently identified with the District's eligibility requirement. The District has implemented a policy to replace the Consolidated Application prepopulated numbers annually with the poverty and enrollment numbers reported to the California Longitudinal Pupil Achievement Data System (CALPADS) for the fall California Basic Educational Data System certification day. The new policy and procedure was implemented on the Spring Consolidated Application completed June of 2016.

2016-002 50000

Federal Program Affected

Title: Title 1, Part A- Basic Grants, Low Income and Neglected
CFDA: 84.010
Pass-Through Agency: California Department of Education
Federal Agency: U.S. Department of Education

Criteria or Specific Requirements

Per Title 2, Code of Federal Regulations, Part 200, Subpart E, Section 200.430(i)(1)(vii), charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity.

Condition

The California Department of Education (CDE) Audits and Investigations Division (A&I) conducted a Federal Program Monitoring (FPM) audit of the District for the fiscal year 2015-2016. Based on the audit conducted, the District did not have sufficient controls in place to ensure that employees working on multiple activities or cost objectives maintain time accounting documentation in accordance with federal requirements. Specifically, the District's time accounting documentation reported budgeted hours, rather than actual hours worked, and did not consistently identify the employees' activities.

Questioned Costs

There were no direct questioned costs associated with the condition identified.

Context

The condition was identified as a result of the auditor's review of correspondence from the California Department of Education, dated September 9, 2016, summarizing the result of the audit conducted by A&I.

Effect

The District has not complied with the requirements identified in Title 2, Code of Federal Regulations, Part 200, Subpart E, Section 200.430 (i)(1)(vii).

Cause

The condition identified appears to have materialized due to the District's lack of awareness of the requirements under Title 2, Code of Federal Regulations, Part 200, Subpart E, Section 200.430 (i)(1)(vii).

Recommendation

The District should review the requirements stated in Title 2, Code of Federal Regulations, Part 200, Subpart E, Section 200.430 (i)(1)(vii) and implement a procedure to address the control deficiency currently identified with the District's time accounting documentation as it relates to employees working on multiple activities or cost objectives.

Corrective Action Plan

The District has updated the time accounting procedures and forms to meet the requirements for Title 2, Code of Federal Regulations, Part 2000, Subpart E, Section 200.430 (i)(l) (vii). The new time accounting procedures will be implemented commencing with the 2016-17 school year.

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:

Five Digit Code	AB 3627 Finding Type
40000	State Compliance

2016-003 40000

Criteria or Specific Requirements

California Education Code Section 42238.02(b)(4) states school districts should revise their submitted data on English learners, foster youth, and free or reduced-price meal eligible pupil counts to ensure the accuracy of data reflected in the California Longitudinal Pupil Achievement Data System.

Condition

The Unduplicated Local Control Funding Formula (LCFF) Pupil Counts submitted to the California Department of Education was inaccurate. It appears that the District inaccurately reported 255 students as having designation of free or reduced on the "1.18 – FRPM/English Learner/Foster Youth – Student List" report.

Questioned Costs

The District over claimed the total eligible pupils by 255, resulting in a decrease of approximately $244,373 in LCFF funding.

Context

The condition was identified as a result of selecting a sample of students from the "1.18 – FRPM/English Learner/Foster Youth – Student List" CALPADS report in accordance to the 2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting, Section 19489(a)(1). The initial sample was selected from six school sites, which resulted in exceptions noted for four of these sites. For 60 students selected, 5 did not have a current year eligibility application or other alternative household income data and 4 had their status changed to Paid after Verification process performed by the Nutrition Department. The auditor requested that the District identify all remaining students who either did not have an eligibility application or other alternative income data or had their status changed to Paid due to the verification process. The District's review of all remaining students resulted in total of 255 students identified that were incorrectly designated as having free or reduced status on the "1.18 – FRPM/English Learner/Foster Youth – Student List" report.

Effect

As a result of our testing, it appears that the District did not properly update the 1.18 – FRPM/English Learner/Foster Youth – Student List" CALPADS report to align the reporting with the most current free and reduced eligibility information from the District's Nutrition Services Department. The following schedule identifies the exceptions by the site and District-wide.

School Code	School Name	Enrollment Count	Certified Total Unduplicated Count	Adjustment Based on Eligibility FRPM	Adjusted Total Unduplicated Count
6012439	Barranca Elementary	596	427	(2)	425
6012447	Ben Lomond Elementary	478	391	4	395
1932086	Covina High	1,316	949	(27)	922
6012470	Cypress Elementary	643	499	-	499
1931617	Fairvalley High (Continuation)	142	113	(4)	109
6012512	Grovecenter Elementary	479	355	(14)	341
6012520	Lark Ellen Elementary	379	315	(9)	306
6012538	Las Palmas Middle	844	678	(16)	662
6012546	Manzanita Elementary	235	194	7	201
6012553	Merwin Elementary	389	328	(4)	324
6012561	Mesa Elementary	635	306	(14)	292
1936418	Northview High	1,333	997	(50)	947
0000001	NPS School Group for Covina-Valley Unified	20	-	4	4
6012587	Rowland Avenue Elementary	521	378	(7)	371
6012595	Sierra Vista Middle	811	521	(18)	503
1938372	South Hills High	1,702	1,022	(84)	938
6012611	Traweek Middle	888	667	(14)	653
0118646	Vincent Children's Center	-	-	-	-
6012645	Workman Avenue Elementary	494	397	(7)	390
District-wide		11,905	8,537	(255)	8,282

Cause

The primary cause appears to originate from the manner in which the District was importing students' eligibility information from the District's eTrition program. The District's eTrition Program does not provide a start or an end date of student's eligibility status, which impaired the District's ability to identify and export student information from the eTrition program in a given year.

Recommendation

The District should emphasize the importance of completing Form 1.18 accurately, which would include ensuring that all changes are accurately and timely updated based on new eligibility documentation received. In addition, the District should identify and evaluate key CALPADS calendar dates to ensure that appropriate and necessary measure are taking place to ensure that CALPADS information is being updated.

Corrective Action Plan

The District will review procedures to ensure that the correct designations are reflected on the "1.18 – FRPM/English Learner/Foster Youth – Student List" CALPADS report within the allowed time period. The Nutrition Services and Technology Departments will coordinate throughout the year to monitor and verify the accuracy of the FRPM data in CALPADS.

COVINA-VALLEY 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.

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

Governing Board
Covina-Valley Unified School District
Covina, California

In planning and performing our audit of the financial statements of Covina-Valley 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 12, 2016 on the government-wide financial statements of the District.

Internal Controls - Receipts

Untimely Deposits of General Fund Local Revenues

Observation

It appears that deposits are not always made in a timely manner. Based on our review of sample transmittals selected for testing, it appears that the delay in deposits ranged from 11 to 105 days. The delay in deposits of cash collections may increase the probability of loss.

Recommendation

The District should adhere to its established procedures related to frequency of deposits. The frequency of deposits may need to be increased depending on the volume and amount of cash collected. At a minimum, the District should make a single deposit once a week to reduce the risks associated with loss.

Untimely Deposits of Adult Education Fund Local Revenues

Observation

It appears that the deposits are not always made in a timely manner. Based on our review of sample transmittals selected for testing, it appears that the delay in deposits ranged from 11 to 97 days due to sites not forwarding receipts to the District office in a timely manner. The delay in deposits of cash may increase the probability of loss.

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Recommendation

The District should adhere to its established procedures related to frequency of deposits. The frequency of deposits may need to be increased depending on the volume and amount of cash collected. At a minimum, the District should make a single deposit once a week to reduce the risks associated with loss.

Nutrition Local Revenues

Observation

Cafeteria employees at the sites have access to sales information at the time of closeout. The cafeteria personnel are able to run a report that shows expected sales amount before they count the cash for the day at closeout. At the end of the day, cash collection is not counted in the presence of at least two employees.

Recommendation

The cafeteria personnel at sites should not have access to expected sales report and should be making a blind count of total cash collection for the day. The cash should be then forwarded to the Nutrition office at the District where the blind cash count is compared to the expected sales report. The blind count eliminates situations where cash could be misappropriated at the site if there are significant overages. The cafeteria should have at least two employees present when the cash is counted at the end of the day to ensure proper controls are in place to corroborate the amount counted.

Internal Controls - Disbursements

Observations

The following weaknesses were noted with disbursements:

1. During our review of credit card disbursements, the auditor noted five disbursements that are unallowed under the CAL-Card purchasing policies and procedures. Four of the five purchases were for technology supplies and one was for a football goal. Per the approved CAL-Card policy, equipment purchases are prohibited and technology supplies are not allowed unless pre-approved by the Director of Technology.
2. Two of 40 disbursement reviewed had the invoice dated prior to the requisition date. This would indicate that items are being purchased prior to being approved.

Recommendations

1. The District should adhere to its CAL-Card Purchasing Card Program policies and procedures. Administrators of each department should inform its personnel of the type of expenses allowed under the approved CAL-Card program.
2. The District should take the necessary steps to ensure that all items have been reviewed and approved prior to being purchased. This will help ensure items are appropriate and funds are available.

ASSOCIATED STUDENT BODY (ASB)

Las Palmas Middle School

<u>Observations</u>

During the review of internal control procedures, the following issues were noted:

1. ASB disbursements are being made without explicit receiving documentation for goods being ordered. As a result, two of 15 vendor invoices were paid without the direct knowledge of whether or not the goods being ordered have been received by the ASB.
2. All three revenue potential forms tested were incomplete. As a result, the auditor was not able to verify the cash received and disbursed for the fundraising events.
3. The ASB does not have adequate back up for the money received from students, advisors, and teachers for fundraising activities.
4. During our review of ticketed event activities, it was noted daily sales reports are not prepared for ticket sales. The auditor noted the ticketed event had significant amounts of money collected but could not be mathematically recalculated. The overages and shortages were not documented by the site. The site does not maintain perpetual inventory records for inventory of the student store. Therefore, no reconciliation is being performed between the perpetual inventory and the physical inventory count.

<u>Recommendations</u>

1. All goods being ordered should be documented with explicit receiving documentation. Documentation should indicate the date that the goods have been received and documentation regarding whether or not the goods have been received intact, undamaged, and in the correct quantities. Payments for vendor invoices should only be made once the receiving documentation is available.
2. Revenue potentials should be prepared completely to assist the ASB in identifying whether or not a fundraiser will be successful. By completing the expected results section of the revenue potential, the ASB will know how much profit should be made from the fundraiser. Once the fundraiser is complete, the actual results should be summarized and compared to the expected results to determine if the fundraiser generated the profit expected. Discrepancies should be investigated and explained and a determination should be made as to whether or not it is beneficial to conduct the fundraiser in the future.
3. The ASB should implement a system to keep track of items sold for purposes for collecting monies for ASB fundraising activities. This may be done through a physical inventory count prior to sales taking place as well as performing an inventory count after sales. In addition, the ASB may implement a tally sheet documenting items being sold as well as the selling price. After the sales advisors should reconcile the tally sheet to the cash collected and submit all documentation to the individual depositing cash to the bank.

4. Daily sales reports provide reconciliation between the sales recorded for the day and the amount of money collected for the day. From these reports, the ASB can determine if there is an overage or shortage of funds collected. To enhance the accountability and accounting of the ticket event activity, the importance of using a sales report and correctly reconciling sales daily should be emphasized to all who work the register. If there is a discrepancy, the ASB can evaluate and develop methods to reduce such variances from occurring. Additionally, the ASB can analyze the daily sales reports to view trends in sales. These trends may help the ASB predict/adjust their inventory to meet demand. Without the daily sales report, the ASB cannot effectively reconcile the amount of recorded sales for the day and money collected. The site should implement a perpetual inventory system that will allow the site to track daily sales. This will aid the site in reconciling actual cash collections to estimated cash collections based on items sold. In addition, a perpetual inventory system will aid the site in reconciling the inventory to the monthly physical counts and identify any variances which may have resulted due to stolen goods.

Northview High School

Observations

During the review of internal control procedures, the following issues were noted:

1. Based on the review of the cash receipting procedures it was noted that several deposits contained receipts that were not deposited in a timely manner. Delay in deposit ranged from ten to 40 days from the date of receipt. This could result in large cash balances being maintained at the site which can hinder the safeguarding of ASB assets
2. Cash collections are not always supported by sub-receipts or logs. The auditor was unable to verify the accuracy and timeliness of the deposits.
3. ASB disbursements were being made without explicit receiving documentation for goods being ordered. As a result, 11 of 20 vendor invoices reviewed were paid without the direct knowledge of whether or not the goods being ordered had been received by the ASB.
4. 15 of 20 disbursements tested did not have an appropriate purchase order approved by the ASB. Therefore, the disbursements were not pre-approved prior to transactions taking place.
5. Two of 20 transactions reviewed did not have an appropriate invoice from the vendor.
6. Three of four revenue potential forms tested were incomplete. One of the forms tested was blank, two of the form tested were incomplete. As a result, the auditor was not able to verify the cash received and disbursed to the fundraising events.
7. Based on our review of the ASB student store activities, daily sales forms were not used for any student store sales activities and perpetual inventory was not maintained. As a result, there was a lack of sales reconciliations taking place in connection with the sale of goods in the student store.
8. Cash collections aren't being counted in the presence of multiple personnel during ticketed events. The person counting the cash should have at least one person beside them to ensure proper internal controls are in place.
9. The auditor was not provided with a board approved policy of the imprest amount for the change fund and petty cash; the auditor noted $1,594 for the change fund and $87.86 for the petty cash as of the audit date. In addition, there did not seem to be a formal procedure to deposit back the change fund into the bank account at the end of the school year.

Recommendations

1. The ASB should, at a minimum, make their deposits once a week to minimize the amount of cash held at the sites. During weeks of high cash activity, there may be a need to make more than one deposit. The District should communicate specific guidelines for this procedure including the maximum cash on hand that should be maintained at the site.
2. The ASB should establish a procedure to issue receipts whenever it receives money or check for any events or sale. Pre-numbered triplicate receipts or logs should be utilized when collecting money for all ASB events and transactions.
3. All goods being ordered should be documented with explicit receiving documentation. Documentation should indicate the date that the goods have been received and documentation regarding whether or not the goods have been received intact, undamaged, and in the correct quantities. Payments for vendor invoices should only be made once the receiving documentation is available.
4. In order to ensure proper internal controls over the ASB disbursements, the site should ensure that all disbursement transactions are pre-approved by authorized administrative personnel and the student council. This would allow the reviewing administrator and/or the student council to determine if the proposed activities are appropriate and to determine if sufficient funding is available to finance the activities or the purchases.
5. All ASB disbursements should be accompanied by supporting invoices or receipts which document the reasons and the amount being paid. Disbursements should not be made if supporting invoices or receipts are not present.
6. Revenue potentials should be prepared completely to assist the ASB in identifying whether or not a fundraiser will be successful. By completing the expected results section of the revenue potential, the ASB will know how much profit should be made from the fundraiser. Once the fundraiser is complete, the actual results should be summarized and compared to the expected results to determine if the fundraiser generated the profit expected. Discrepancies should be investigated and explained and a determination should be made as to whether or not it is beneficial to conduct the fundraiser in the future.
7. Sales reconciliations should be performed regularly to ensure that the cash generated from the sale of inventory is consistent with the physical inventory sold. In practice, beginning inventory of goods should be taken prior to sales activities and ending inventory of goods should be taken at the conclusion of the sales event. The difference between beginning and ending inventory should be determined and expected sales revenue should be calculated using the unit price of goods being sold. Lastly, actual sales should be compared with the calculated expected sales. Differences identified should be further examined, as needed.
8. It is recommended that the ASB revise their established procedures related to cash counted for ticketed event sales. Two individuals should be present when teachers/clubs deposit the money with the bookkeeper. The bookkeeper and the depositing party should both sign and date the ticket form for door and gate sales. If a dual cash count is not performed and the two parties end up with different totals, one of the parties may be suspected of wrongdoing.
9. The purpose of establishing a petty cash fund for ASB operations is to make immediate cash payments of small amount. Petty cash accounts should be authorized by the District board policy and approved by the District office. When ASB petty cash has been authorized by the District and used to reimburse an individual for preapproved expenditures, the petty cash fund will need to be replenished by issuing a check to a designated person, who will cash the check and reimburse the petty cash funds. Petty cash amounts should also be reflected on the ASB financial statements. A change account is normally checked out from the bookkeeper for individual fundraisers or activities and should be used solely for making change. When the fundraiser is complete, the change account should be returned back to the bookkeeper. If it is not deposited back into the bank account by the end of the year, the remaining amount should be properly reflected on the cash on the Balance Sheet.

South Hills High School

Observations

During the review of internal control procedures, the following issues were noted:

1. Based on the review of the cash receipting procedures it was noted that four of the 21 deposits tested contained receipts that were not deposited in a timely manner. Delay in deposit ranged from 12 to 13 days from the date of receipt. This could result in large cash balances being maintained at the site which can hinder the safeguarding of ASB assets.
2. ASB disbursements were being made without explicit receiving documentation for goods being ordered. As a result, seven of 15 vendor invoices were paid without documented evidence of whether or not the goods being ordered have been received by the ASB.
3. One of 15 disbursements tested were not approved prior to transactions taking place. This could potentially lead to spending in excess of available funds. Additionally, expenditures of a questionable nature could arise if disbursements are not pre-approved.
4. Two of 15 disbursements tested did not have the required three approvals to approve disbursements.
5. Four of the four revenue potential forms tested were incomplete. Two of the forms tested did not have an explanation of the difference between estimated and actual, two of the forms tested did not have the actual column filled out; as a result theauditor was not able to verify the cash received and disbursed to the financials.
6. Based on the review of the student store daily sales forms, there did not seem to be any indication of dual counts taking place during cash collections for student store.
7. Two of the four daily sales form tested had amounts of unexplained discrepancies between daily sales totals and monies collected. The overages and shortages were documented by the site; however, no procedures were in place to identify the reasoning for the discrepancies.

Recommendations

1. The ASB should, at a minimum, make their deposits once a week to minimize the amount of cash held at the sites. During weeks of high cash activity, there may be a need to make more than one deposit. The District should communicate specific guidelines for this procedure including the maximum cash on hand that should be maintained at the site.
2. All goods being ordered should be documented with explicit receiving documentation. Documentation should indicate the date that the goods have been received and documentation regarding whether or not the goods have been received intact, undamaged, and in the correct quantities. Payments for vendor invoices should only be made once the receiving documentation is available.
3. In order to ensure proper internal controls over the ASB disbursements, the site should ensure that all disbursement transactions are pre-approved by authorized administrative personnel and the student council. This would allow the reviewing administrator and/or the student council to determine if the proposed activities are appropriate and to determine if sufficient funding is available to finance the activities or the purchases. The ASB/club is not obligated to pay for the expenditure if preapproval was not obtained.
4. In order to ensure proper internal controls over the ASB disbursements, the site should ensure that all disbursements are authorized by three individuals (ASB advisor, student body representative, and an administrator). The ASB/club is not obligated to pay for the expenditure if approval was not obtained.

5. Revenue potentials should be prepared completely to assist the ASB in identifying whether or not a fundraiser will be successful. By completing the expected results section of the revenue potential, the ASB will know how much profit should be made from the fundraiser. Once the fundraiser is complete, the actual results should be summarized and compared to the expected results to determine if the fundraiser generated the profit expected. Discrepancies should be investigated and explained and a determination should be made as to whether or not it is beneficial to conduct the fundraiser in the future.
6. It is recommended that the ASB performs dual counts for whenever cash exchanges hands. The bookkeeper and the depositing party should both sign and date the daily sales form. If a dual cash count is not performed and the two parties end up with different totals, one of the parties may be suspected of wrongdoing.
7. Daily overages and shortages in the register usually mean that merchandise was sold and not accounted correctly on the register. To enhance the accountability and accounting of the student store activity, the importance of ringing all merchandise sales up and correctly reconciling daily sales should be emphasized to all who work the register during student store operation. Sales reconciliations should be performed regularly to ensure that the cash generated from the sale of inventory is consistent with the physical inventory sold. In practice, beginning inventory of goods should be taken prior to sales activities and ending inventory of goods should be taken at the conclusion of the sales event. The difference between beginning and ending inventory should be determined and expected sales revenue should be calculated using the unit price of goods being sold. Lastly, actual sales should be compared with the calculated expected sales. Differences identified should be further examined, as needed.

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

Vavrinek, Trine, Day & Co. LLP

Rancho Cucamonga, California
December 12, 2016