

SYLVAN UNION SCHOOL DISTRICT

AUDIT REPORT
JUNE 30, 2018

San Diego

Los Angeles

San Francisco
Bay Area

christy  white
A PROFESSIONAL
ACCOUNTANCY CORPORATION *associates*

SYLVAN UNION SCHOOL DISTRICT
TABLE OF CONTENTS
JUNE 30, 2018

FINANCIAL SECTION

Independent Auditors’ Report 1
Management’s Discussion and Analysis..... 4
Basic Financial Statements
 Government-wide Financial Statements
 Statement of Net Position 11
 Statement of Activities 12
 Fund Financial Statements
 Governmental Funds – Balance Sheet..... 13
 Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position 14
 Governmental Funds – Statement of Revenues, Expenditures, and Changes in Fund Balances..... 15
 Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund
 Balances to the Statement of Activities 16
 Proprietary Funds – Statement of Net Position 18
 Proprietary Funds – Statement of Revenues, Expenses, and Changes in Net Position..... 19
 Proprietary Funds – Statement of Cash Flows..... 20
 Fiduciary Funds – Statement of Net Position..... 21
Notes to Financial Statements 22

REQUIRED SUPPLEMENTARY INFORMATION

General Fund – Budgetary Comparison Schedule 62
Schedule of Changes in Total OPEB Liability and Related Ratios..... 63
Schedule of the District’s Proportionate Share of the Net Pension Liability - CalSTRS 64
Schedule of the District’s Proportionate Share of the Net Pension Liability - CalPERS..... 65
Schedule of District Contributions - CalSTRS 66
Schedule of District Contributions - CalPERS..... 67
Notes to Required Supplementary Information..... 68

SUPPLEMENTARY INFORMATION

Schedule of Expenditures of Federal Awards 70
Schedule of Average Daily Attendance (ADA)..... 71
Schedule of Instructional Time 72
Schedule of Financial Trends and Analysis 73
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements 74
Schedule of Charter Schools..... 75
Combining Statements – Non-Major Governmental Funds
 Combining Balance Sheet 76
 Combining Statement of Revenues, Expenditures, and Changes in Fund Balances..... 77
Local Education Agency Organization Structure 78
Notes to Supplementary Information..... 79

**SYLVAN UNION SCHOOL DISTRICT
TABLE OF CONTENTS
JUNE 30, 2018**

OTHER INDEPENDENT AUDITORS' REPORTS

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* 81
Report on Compliance For Each Major Federal Program; and Report on Internal Control Over Compliance Required by the Uniform Guidance..... 83
Report on State Compliance..... 85

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Summary of Auditors' Results 88
Financial Statement Findings..... 89
Federal Award Findings and Questioned Costs 91
State Award Findings and Questioned Costs..... 92
Summary Schedule of Prior Audit Findings 94

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Governing Board
Sylvan Union School District
Modesto, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the major fund, and the aggregate remaining fund information of the Sylvan Union School District, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Sylvan Union School 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Christy White, CPA

Michael D. Ash, CPA

John Whitehouse, CPA

Heather Daud Rubio

SAN DIEGO

LOS ANGELES

SAN FRANCISCO/BAY AREA

Corporate Office:

348 Olive Street
San Diego, CA 92103

toll-free: 877.220.7229

tel: 619.270.8222

fax: 619.260.9085

www.christywhite.com

*Licensed by the California
State Board of Accountancy*

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, the major fund, and the aggregate remaining fund information of Sylvan Union School District, as of June 30, 2018, 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

As discussed in Notes 1 and 11 to the financial statements, in 2018 Sylvan Union School District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. 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 required supplementary information, such as management's discussion and analysis, budgetary comparison information, schedule of changes in total OPEB liability and related ratios, schedules of proportionate share of net pension liability, and schedules of District contributions for pensions be presented to supplement the basic financial statements. Such information, although not 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 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Sylvan Union School District's basic financial statements. The supplementary information listed in the table of contents, including the schedule of expenditures of Federal awards, which is required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information listed in the table of contents is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 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 10, 2018 on our consideration of Sylvan Union 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 solely 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 the effectiveness of Sylvan Union School District's 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 Sylvan Union School District's internal control over financial reporting and compliance.

Christy White Associates

San Diego, California
December 10, 2018

SYLVAN UNION SCHOOL DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

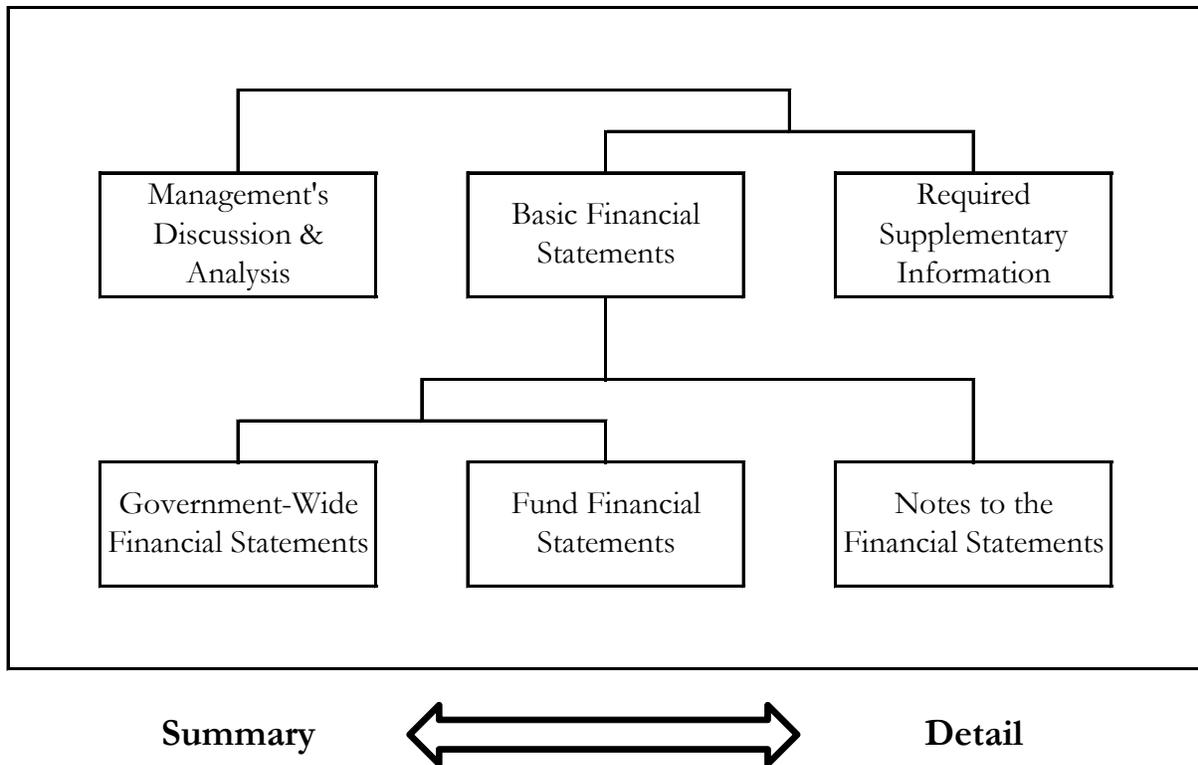
Our discussion and analysis of Sylvan Union School District's (District) financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2018. It should be read in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- ▶ The District's net position was \$58,526,430 for governmental activities and \$289,708 for business-type activities at June 30, 2018. This was a decrease of \$2,650,294 from the prior year's net position for governmental activities after restatement and a decrease of \$114,716 from the prior year's net position for business-type activities.
- ▶ Overall revenues were \$90,041,383, which were exceeded by expenses of \$92,806,393.

OVERVIEW OF FINANCIAL STATEMENTS

Components of the Financials Section



**SYLVAN UNION SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2018**

This annual report consists of three parts – Management's Discussion and Analysis (this section), the basic financial statements, and required supplementary information. The three sections together provide a comprehensive overview of the District. The basic financial statements are comprised of two kinds of statements that present financial information from different perspectives:

- ▶ **Government-wide financial statements**, which comprise the first two statements, provide both short-term and long-term information about the entity's overall financial position.

- ▶ **Fund financial statements** focus on reporting the individual parts of District operations in more detail. The fund financial statements comprise the remaining statements.
 - ▶ **Governmental Funds** provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.
 - ▶ **Proprietary Funds** report services for which the District charges customers a fee. Like the government-wide statements, they provide both long- and short-term financial information.
 - ▶ **Fiduciary Funds** report balances for which the District is a custodian or *trustee* of the funds, such as Associated Student Bodies and pension funds.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The basic financial statements are followed by a section of required and other supplementary information that further explain and support the financial statements.

Government-Wide Statements

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

The two government-wide statements report the District's net position and how it has changed. Net position is one way to measure the District's financial health. Over time, increases or decreases in the District's net position are an indicator of whether its financial health is improving or deteriorating, respectively.

The government-wide financial statements of the District include governmental activities. All of the District's basic services are included here, such as regular education, food service, maintenance and general administration. Local control formula funding and federal and state grants finance most of these activities.

**SYLVAN UNION SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2018**

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE

Net Position

The District's combined net position was \$58,816,138 at June 30, 2018, as reflected in the table below. Of this amount, \$(62,470,349) was unrestricted. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the Governing Board's ability to use that net position for day-to-day operations.

	Governmental Activities			Business-Type Activities		
	2018	2017	Net Change	2018	2017	Net Change
ASSETS						
Current and other assets	\$ 36,898,801	\$ 30,956,082	\$ 5,942,719	\$ 909,347	\$ 954,660	\$ (45,313)
Capital assets	146,305,823	144,977,306	1,328,517	15,013	19,072	(4,059)
Total Assets	183,204,624	175,933,388	7,271,236	924,360	973,732	(49,372)
DEFERRED OUTFLOWS OF RESOURCES	27,108,842	17,335,418	9,773,424	324,712	264,676	60,036
LIABILITIES						
Current liabilities	4,284,902	4,803,018	(518,116)	5,948	4,716	1,232
Long-term liabilities	143,603,380	120,744,891	22,858,489	944,778	807,365	137,413
Total Liabilities	147,888,282	125,547,909	22,340,373	950,726	812,081	138,645
DEFERRED INFLOWS OF RESOURCES	3,898,754	1,989,011	1,909,743	8,638	21,903	(13,265)
NET POSITION						
Net investment in capital assets	110,398,903	111,301,081	(902,178)	15,013	19,072	(4,059)
Restricted	10,872,571	10,183,330	689,241	-	-	-
Unrestricted	(62,745,044)	(55,752,525)	(6,992,519)	274,695	385,352	(110,657)
Total Net Position	\$ 58,526,430	\$ 65,731,886	\$ (7,205,456)	\$ 289,708	\$ 404,424	\$ (114,716)

**SYLVAN UNION SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2018**

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE (continued)

Changes in Net Position

The results of this year's operations for the District as a whole are reported in the Statement of Activities. The table below takes the information from the Statement and rearranges slightly, so you can see our total revenues, expenses, and special items for the year.

	Governmental Activities			Business-Type Activities		
	2018	2017	Net Change	2018	2017	Net Change
REVENUES						
Program revenues						
Charges for services	\$ 1,513,013	\$ 1,220,812	\$ 292,201	\$ 994,486	\$ 949,654	\$ 44,832
Operating grants and contributions	12,712,394	17,576,590	(4,864,196)	-	-	-
Capital grants and contributions	2,687,814	-	2,687,814	-	-	-
General revenues						
Property taxes	17,349,975	17,239,121	110,854	-	-	-
Unrestricted federal and state aid	53,109,628	53,127,994	(18,366)	-	-	-
Other	1,663,139	1,932,770	(269,631)	10,934	8,568	2,366
Total Revenues	89,035,963	91,097,287	(2,061,324)	1,005,420	958,222	47,198
EXPENSES						
Instruction	57,566,013	61,146,760	(3,580,747)	-	-	-
Instruction-related services	9,973,134	9,955,361	17,773	-	-	-
Pupil services	9,082,183	8,254,911	827,272	-	-	-
General administration	3,649,153	3,795,841	(146,688)	-	-	-
Plant services	7,472,969	5,623,894	1,849,075	-	-	-
Ancillary and community services	496,999	492,958	4,041	-	-	-
Debt service	1,904,839	2,047,492	(142,653)	-	-	-
Other outgo	1,702,149	1,581,095	121,054	-	-	-
Enterprise activities	11,855	-	11,855	947,099	827,148	119,951
Total Expenses	91,859,294	92,898,312	(1,039,018)	947,099	827,148	119,951
Transfers & special items	173,037	-	173,037	(173,037)	-	(173,037)
Change in net position	(2,650,294)	(1,801,025)	(849,269)	(114,716)	131,074	(245,790)
Net Position - Beginning, as Restated*	61,176,724	67,532,911	(6,356,187)	404,424	273,350	131,074
Net Position - Ending	\$ 58,526,430	\$ 65,731,886	\$ (7,205,456)	\$ 289,708	\$ 404,424	\$ (114,716)

* Beginning Net Position was restated for governmental activities for the 2018 year only

The cost of all our governmental activities this year was \$91,859,294 (refer to the table above). The amount that our taxpayers ultimately financed for these activities through taxes was only \$17,349,975 because the majority of the cost was paid by other governments and organizations who subsidized certain programs with grants and contributions, charges for services and other revenues.

**SYLVAN UNION SCHOOL DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2018**

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE (continued)

Changes in Net Position (continued)

In the table below, we have presented the net cost of each of the District’s functions. 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.

	Net Cost of Services	
	2018	2017
Instruction	\$ 48,397,939	\$ 50,583,801
Instruction-related services	8,533,995	7,892,419
Pupil services	4,111,793	3,668,261
General administration	3,171,791	3,309,789
Plant services	7,130,755	5,085,258
Ancillary and community services	265,976	262,456
Debt service	1,904,839	2,047,492
Transfers to other agencies	1,417,130	1,251,434
Enterprise activities	11,855	-
Total Expenses	\$ 74,946,073	\$ 74,100,910

FINANCIAL ANALYSIS OF THE DISTRICT’S MAJOR FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed this year, its governmental funds reported a combined fund balance of \$32,343,070, which is more than last year’s ending fund balance of \$26,277,176. The District’s General Fund had \$2,406,599 less in operating revenues than expenditures for the year ended June 30, 2018.

CURRENT YEAR BUDGET 2017-2018

During the fiscal year, budget revisions and appropriation transfers are presented to the Board for their approval on a frequent basis to reflect changes to both revenues and expenditures that become known during the year. In addition, the Board of Education approves financial projections included with the Adopted Budget, First Interim, and Second Interim financial reports. The Unaudited Actuals reflect the District’s financial projections and current budget based on State and local financial information.

**SYLVAN UNION SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2018**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2017-2018 the District had invested \$146,305,823 in capital assets, net of accumulated depreciation for governmental activities and \$15,013 for business-type activities.

	Governmental Activities			Business-Type Activities		
	2018	2017	Net Change	2018	2017	Net Change
CAPITAL ASSETS						
Land	\$ 23,015,113	\$ 23,015,113	\$ -	\$ -	\$ -	\$ -
Construction in progress	3,787,793	6,241,161	(2,453,368)	-	-	-
Land improvements	1,464,431	1,446,511	17,920	62,440	62,440	-
Buildings & improvements	152,067,674	145,035,809	7,031,865	119,754	119,754	-
Furniture & equipment	12,664,074	12,568,359	95,715	32,204	32,204	-
Accumulated depreciation	(46,693,262)	(43,329,647)	(3,363,615)	(199,385)	(195,326)	(4,059)
Total Capital Assets	\$146,305,823	\$144,977,306	\$ 1,328,517	\$ 15,013	\$ 19,072	\$ (4,059)

Long-Term Debt

At year-end, the District had \$143,603,380 and \$944,778 in long-term debt for governmental activities and business-type activities, an increase of 15% and 17%, respectively, from last year – as shown in the table below. The percentage increase in governmental activities is calculated based on the restated 2017 balance. (More detailed information about the District's long-term liabilities is presented in footnotes to the financial statements.)

	Governmental Activities			Business-Type Activities		
	2018	2017	Net Change	2018	2017	Net Change
LONG-TERM LIABILITIES						
Total general obligation bonds	\$ 45,728,705	\$ 38,960,821	\$ 6,767,884	\$ -	\$ -	\$ -
Compensated absences	293,137	267,678	25,459	23,659	22,014	1,645
Energy loan	1,388,616	1,461,701	(73,085)	-	-	-
Total OPEB liability*	8,836,984	8,694,378	142,606	-	-	-
Net pension liability	88,302,429	77,332,235	10,970,194	921,119	785,351	135,768
Less: current portion of long-term debt	(946,491)	(1,416,760)	470,269	-	-	-
Total Long-term Liabilities	\$143,603,380	\$125,300,053	\$ 18,303,327	\$ 944,778	\$ 807,365	\$ 137,413

*Total OPEB liability for 2017 was restated in order to record the District's total OPEB liability in accordance with GASB Statement No. 75 which supersedes GASB Statement No. 45 for the year ended June 30, 2018.

**SYLVAN UNION SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2018**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

At the time these financial statements were prepared and audited, the District was aware of several circumstances that could affect its future financial health.

The State's economy continues to be strong but a new governor could change the fiscal policy for the funding of public education, within the boundaries of Proposition 98. Past fiscal allocations had included higher than expected funding but on-going funding may not be as strong. The UCLA Anderson Forecast (June 2018) noted that the "era of ultra-low interest rates has passed and the economy is at full employment," which creates difficulty sustaining continued growth at the rate recently experienced. And, according to the California Legislative Analyst's Office, there are concerns about a possible mild recession.

Landmark legislation passed in Year 2013 reformed California school district finance by creating the Local Control Funding Formula (LCFF). The LCFF is designed to provide a flexible funding mechanism that links student achievement to state funding levels. The LCFF provides a per pupil base grant amount, by grade span, that is augmented by supplemental funding for targeted student groups in low income brackets, those that are English language learners and foster youth. The 2018-19 adopted State Budget fully funded the LCFF funding gap two years ahead of schedule.

Factors related to LCFF that the District is monitoring include: (1) estimates of funding in the next budget year and beyond; (2) the Local Control and Accountability Plan (LCAP) that aims to link student accountability measurements to funding allocations; (3) ensuring the integrity of reporting student data through the California Longitudinal Pupil Achievement Data System (CALPADs); and, (4) meeting annual compliance and audit requirements.

The District participates in state employee pensions plans, PERS and STRS, and both are underfunded. The District's proportionate share of the liability is reported in the Statement of Net Position as of June 30, 2018. The amount of the liability is material to the financial position of the District. To address the underfunding issues, the pension plans continue to raise employer rates in future years and the increased costs are significant.

Enrollment can fluctuate due to factors such as population growth, competition from private, parochial, inter-district transfers in or out, economic conditions and housing values. Losses in enrollment will cause a school district to lose operating revenues without necessarily permitting the district to make adjustments in fixed operating costs.

All of these factors were considered in preparing the District's budget for the 2018-19 fiscal year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact the Business Office, 605 Sylvan Avenue, Modesto CA, 95355 or at (209) 574-5000.

**SYLVAN UNION SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2018**

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and investments	\$ 35,117,991	\$ 826,389	\$ 35,944,380
Accounts receivable	1,570,925	83,075	1,654,000
Internal balances	117	(117)	-
Inventory	209,768	-	209,768
Capital assets, not depreciated	26,802,906	-	26,802,906
Capital assets, net of accumulated depreciation	119,502,917	15,013	119,517,930
Total Assets	183,204,624	924,360	184,128,984
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	27,021,089	324,712	27,345,801
Deferred amount on refunding	87,753	-	87,753
Total Deferred Outflows of Resources	27,108,842	324,712	27,433,554
LIABILITIES			
Accrued liabilities	3,319,592	5,948	3,325,540
Unearned revenue	18,819	-	18,819
Long-term liabilities, current portion	946,491	-	946,491
Long-term liabilities, non-current portion	143,603,380	944,778	144,548,158
Total Liabilities	147,888,282	950,726	148,839,008
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	3,587,672	8,638	3,596,310
Deferred inflows related to OPEB	311,082	-	311,082
Total Deferred Inflows of Resources	3,898,754	8,638	3,907,392
NET POSITION			
Net investment in capital assets	110,398,903	15,013	110,413,916
Restricted:			
Capital projects	3,429,012	-	3,429,012
Debt service	2,622,653	-	2,622,653
Educational programs	3,552,966	-	3,552,966
All others	1,267,940	-	1,267,940
Unrestricted	(62,745,044)	274,695	(62,470,349)
Total Net Position	\$ 58,526,430	\$ 289,708	\$ 58,816,138

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

**SYLVAN UNION SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018**

Function/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	
GOVERNMENTAL ACTIVITIES							
Instruction	\$ 57,566,013	\$ 325,228	\$ 6,155,032	\$ 2,687,814	\$ (48,397,939)		
Instruction-related services							
Instructional supervision and administration	2,985,607	24,528	1,328,282	-	(1,632,797)		
Instructional library, media, and technology	1,198,254	14	2,818	-	(1,195,422)		
School site administration	5,789,273	-	83,497	-	(5,705,776)		
Pupil services							
Home-to-school transportation	1,181,443	35	248	-	(1,181,160)		
Food services	4,120,648	1,019,794	2,982,062	-	(118,792)		
All other pupil services	3,780,092	27,797	940,454	-	(2,811,841)		
General administration							
Centralized data processing	638,851	-	3,510	-	(635,341)		
All other general administration	3,010,302	56,873	416,979	-	(2,536,450)		
Plant services	7,472,969	22,658	319,556	-	(7,130,755)		
Ancillary services	443,280	-	231,023	-	(212,257)		
Community services	53,719	-	-	-	(53,719)		
Enterprise activities	11,855	-	-	-	(11,855)		
Interest on long-term debt	1,904,839	-	-	-	(1,904,839)		
Other outgo	1,702,149	36,086	248,933	-	(1,417,130)		
Total Governmental Activities	\$ 91,859,294	\$ 1,513,013	\$ 12,712,394	\$ 2,687,814	(74,946,073)		
BUSINESS-TYPE ACTIVITIES							
Enterprise activities	\$ 947,099	\$ -	\$ -	\$ -	\$ (947,099)		
Total Business-Type Activities	947,099	-	-	-	(947,099)		
Total School District	\$ 92,806,393	\$ 1,513,013	\$ 12,712,394	\$ 2,687,814			\$ (75,893,172)
General revenues							
Taxes and subventions							
Property taxes, levied for general purposes				16,050,037	-	16,050,037	
Property taxes, levied for debt service				1,299,938	-	1,299,938	
Federal and state aid not restricted for specific purposes				53,109,628	-	53,109,628	
Interest and investment earnings				276,771	10,934	287,705	
Interagency revenues				19,516	-	19,516	
Miscellaneous				1,366,852	994,486	2,361,338	
Subtotal, General Revenue				72,122,742	1,005,420	73,128,162	
Change in net position before transfers & special items				(2,823,331)	58,321	(2,765,010)	
Internal transfers				173,037	(173,037)	-	
Total Transfers & Special Items				173,037	(173,037)	-	
CHANGE IN NET POSITION				(2,650,294)	(114,716)	(2,765,010)	
Net Position - Beginning, as Restated				61,176,724	404,424	61,581,148	
Net Position - Ending				\$ 58,526,430	\$ 289,708	\$ 58,816,138	

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

SYLVAN UNION SCHOOL DISTRICT
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2018

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS			
Cash and investments	\$ 21,691,415	\$ 11,927,096	\$ 33,618,511
Accounts receivable	988,092	466,618	1,454,710
Due from other funds	154,478	6,510	160,988
Stores inventory	-	209,768	209,768
Total Assets	\$ 22,833,985	\$ 12,609,992	\$ 35,443,977
LIABILITIES			
Accrued liabilities	\$ 2,900,068	\$ 21,149	\$ 2,921,217
Due to other funds	6,440	154,431	160,871
Unearned revenue	18,819	-	18,819
Total Liabilities	2,925,327	175,580	3,100,907
FUND BALANCES			
Nonspendable	10,000	210,768	220,768
Restricted	3,552,966	9,521,846	13,074,812
Committed	-	2,701,798	2,701,798
Assigned	3,289,653	-	3,289,653
Unassigned	13,056,039	-	13,056,039
Total Fund Balances	19,908,658	12,434,412	32,343,070
Total Liabilities and Fund Balances	\$ 22,833,985	\$ 12,609,992	\$ 35,443,977

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

**SYLVAN UNION SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT
OF NET POSITION
JUNE 30, 2018**

Total Fund Balance - Governmental Funds \$ 32,343,070

Amounts reported for assets and liabilities for governmental activities in the statement of net position are different from amounts reported in governmental funds because:

Capital assets:

In governmental funds, only current assets are reported. In the statement of net position, all assets are reported, including capital assets and accumulated depreciation:

Capital assets	\$ 192,999,085	
Accumulated depreciation	<u>(46,693,262)</u>	146,305,823

Deferred amount on refunding:

In governmental funds, the net effect of refunding bonds is recognized when debt is issued, whereas this amount is deferred and amortized in the government-wide financial statements:

87,753

Unmatured interest on long-term debt:

In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred. The additional liability for unmaturing interest owing at the end of the period was:

(398,375)

Long-term liabilities:

In governmental funds, only current liabilities are reported. In the statement of net position, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consist of:

Total general obligation bonds	\$ 45,728,705	
Compensated absences	293,137	
Energy loan	1,388,616	
Total OPEB liability	8,836,984	
Net pension liability	<u>88,302,429</u>	(144,549,871)

Deferred outflows and inflows of resources relating to pensions:

In governmental funds, deferred outflows and inflows of resources relating to pensions are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources relating to pensions are reported.

Deferred outflows of resources related to pensions	\$ 27,021,089	
Deferred inflows of resources related to pensions	<u>(3,587,672)</u>	23,433,417

Deferred outflows and inflows of resources relating to OPEB:

In governmental funds, deferred outflows and inflows of resources relating to OPEB are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources relating to OPEB are reported.

Deferred outflows of resources related to OPEB	\$ -	
Deferred inflows of resources related to OPEB	<u>(311,082)</u>	(311,082)

Internal service funds:

Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because internal service funds are presumed to operate for the benefit of governmental activities, assets, deferred outflows of resources, liabilities, and deferred inflows of resources of internal service funds are reported with governmental activities in the statement of net position. Net position for internal service funds is:

1,615,695

Total Net Position - Governmental Activities \$ 58,526,430

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

**SYLVAN UNION SCHOOL DISTRICT
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2018**

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES			
LCFF sources	\$ 66,190,553	\$ -	\$ 66,190,553
Federal sources	4,695,717	2,720,952	7,416,669
Other state sources	6,903,023	2,896,968	9,799,991
Other local sources	4,895,216	2,832,299	7,727,515
Total Revenues	82,684,509	8,450,219	91,134,728
EXPENDITURES			
Current			
Instruction	54,908,661	-	54,908,661
Instruction-related services			
Instructional supervision and administration	2,971,935	-	2,971,935
Instructional library, media, and technology	1,029,195	-	1,029,195
School site administration	5,485,869	-	5,485,869
Pupil services			
Home-to-school transportation	931,306	-	931,306
Food services	-	3,861,646	3,861,646
All other pupil services	3,786,806	-	3,786,806
General administration			
Centralized data processing	609,935	-	609,935
All other general administration	2,725,524	157,812	2,883,336
Plant services	6,701,483	67,159	6,768,642
Facilities acquisition and maintenance	3,902,057	856,337	4,758,394
Ancillary services	438,152	-	438,152
Enterprise activities	4,951	-	4,951
Transfers to other agencies	1,522,149	-	1,522,149
Debt service			
Principal	73,085	1,145,000	1,218,085
Interest and other	-	954,905	954,905
Total Expenditures	85,091,108	7,042,859	92,133,967
Excess (Deficiency) of Revenues			
Over Expenditures	(2,406,599)	1,407,360	(999,239)
Other Financing Sources (Uses)			
Transfers in	2,672,485	5,792,869	8,465,354
Other sources	-	6,892,096	6,892,096
Transfers out	(2,191,235)	(6,101,082)	(8,292,317)
Net Financing Sources (Uses)	481,250	6,583,883	7,065,133
NET CHANGE IN FUND BALANCE			
	(1,925,349)	7,991,243	6,065,894
Fund Balance - Beginning	21,834,007	4,443,169	26,277,176
Fund Balance - Ending	\$ 19,908,658	\$ 12,434,412	\$ 32,343,070

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

**SYLVAN UNION 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, 2018**

Net Change in Fund Balances - Governmental Funds \$ 6,065,894

Amounts reported for governmental activities in the statement of activities are different from amounts reported in governmental funds because:

Capital outlay:

In governmental funds, the costs of capital assets are reported as expenditures in the period when the assets are acquired. In the statement of activities, costs of capital assets are allocated over their estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is:

Expenditures for capital outlay:	\$ 4,729,177	
Depreciation expense:	<u>(3,400,660)</u>	1,328,517

Debt service:

In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reductions of liabilities. Expenditures for repayment of the principal portion of long-term debt were:

1,218,085

Debt proceeds:

In governmental funds, proceeds from debt are recognized as Other Financing Sources. In the government-wide statements, proceeds from debt are reported as increases to liabilities. Amounts recognized in governmental funds as proceeds from debt, net of issue premium or discount, were:

(6,892,096)

Deferred amounts on refunding:

In governmental funds, deferred amounts on refunding are recognized in the period they are incurred. In the government-wide statements, the deferred amounts on refunding are amortized over the life of the debt. The net effect of the deferred amounts on refunding during the period was:

(7,313)

Unmatured interest on long-term debt:

In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period, was:

(101,833)

Accreted interest on long-term debt:

In governmental funds, accreted interest on capital appreciation bonds is not recorded as an expenditure from current sources. In the government-wide statement of activities, however, this is recorded as interest expense for the period.

(1,288,746)

Compensated absences:

In governmental funds, compensated absences are measured by the amounts paid during the period. In the statement of activities, compensated absences are measured by the amount earned. The difference between compensated absences paid and compensated absences earned, was:

(25,459)

(continued on next page)

**SYLVAN UNION SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE STATEMENT OF
ACTIVITIES, continued
FOR THE YEAR ENDED JUNE 30, 2018**

Postemployment benefits other than pensions (OPEB):

In governmental funds, OPEB expenses are recognized when employer OPEB contributions are made. In the statement of activities, OPEB expenses are recognized on the accrual basis. This year, the difference between OPEB expenses and actual employer OPEB contributions was: (453,688)

Pensions:

In governmental funds, pension costs are recognized when employer contributions are made, in the government-wide statement of activities, pension costs are recognized on the accrual basis. This year, the difference between accrual-basis pension costs and employer contributions was: (2,788,118)

Amortization of debt issuance premium or discount:

In governmental funds, if debt is issued at a premium or at a discount, the premium or discount is recognized as an Other Financing Source or an Other Financing Use in the period it is incurred. In the government-wide statements, the premium or discount is amortized over the life of the debt. Amortization of premium or discount for the period is: 267,958

Internal Service Funds:

Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because internal service funds are presumed to benefit governmental activities, internal service activities are reported as governmental in the statement of activities. The net increase or decrease in internal service funds was: 26,505

Change in Net Position of Governmental Activities \$ (2,650,294)

SYLVAN UNION SCHOOL DISTRICT
PROPRIETARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2018

	Business-Type Activities	Governmental Activities
	Child Development Fund	Internal Service Fund
ASSETS		
Current assets		
Cash and investments	\$ 826,389	\$ 1,499,480
Accounts receivable	83,075	116,215
Total current assets	<u>909,464</u>	<u>1,615,695</u>
Non-current assets		
Capital assets, net of accumulated depreciation	15,013	-
Total non-current assets	<u>15,013</u>	<u>-</u>
Total Assets	<u>924,477</u>	<u>1,615,695</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to pensions	324,712	-
Total Deferred Outflows of Resources	<u>324,712</u>	<u>-</u>
LIABILITIES		
Current liabilities		
Accrued liabilities	5,948	-
Due to other funds	117	-
Total current liabilities	<u>6,065</u>	<u>-</u>
Non-current liabilities		
Net pension liability	921,119	-
Compensated absences	23,659	-
Total non-current liabilities	<u>944,778</u>	<u>-</u>
Total Liabilities	<u>950,843</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to pensions	8,638	-
Total Deferred Inflows of Resources	<u>8,638</u>	<u>-</u>
NET POSITION		
Net investment in capital assets	15,013	-
Restricted	-	1,615,695
Unrestricted	274,695	-
Total Net Position	<u>\$ 289,708</u>	<u>\$ 1,615,695</u>

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

SYLVAN UNION SCHOOL DISTRICT
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018

	Business-Type Activities	Governmental Activities
	Child Development Fund	Internal Service Fund
OPERATING REVENUE		
Charges for services	\$ 990,526	\$ 1,352,242
Other local revenues	3,959	-
Total operating revenues	994,485	1,352,242
OPERATING EXPENSE		
Salaries and benefits	872,530	-
Supplies and materials	13,620	-
Professional services	56,890	1,341,556
Depreciation	4,059	-
Total operating expenses	947,099	1,341,556
Operating income/(loss)	47,386	10,686
NON-OPERATING REVENUES/(EXPENSES)		
Interest income	10,935	15,819
Transfers out	(173,037)	-
Total non-operating revenues/(expenses)	(162,102)	15,819
CHANGE IN NET POSITION	(114,716)	26,505
Net Position - Beginning	404,424	1,589,190
Net Position - Ending	\$ 289,708	\$ 1,615,695

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

**SYLVAN UNION SCHOOL DISTRICT
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2018**

	Business-Type Activities	Governmental Activities
	Child Development Fund	Internal Service Fund
Cash flows from operating activities		
Cash received from user charges	\$ 978,733	\$ 1,336,122
Cash payments for payroll, insurance, and operating costs	(930,804)	(1,342,080)
Net cash provided by (used for) operating activities	<u>47,929</u>	<u>(5,958)</u>
Cash flows from non-capital financing activities		
Interfund transfers in (out)	(173,037)	-
Net cash provided by (used for) non-capital financing activities	<u>(173,037)</u>	<u>-</u>
Cash flows from investing activities		
Interest received	10,935	15,819
Net cash provided by (used for) investing activities	<u>10,935</u>	<u>15,819</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(114,173)</u>	<u>9,861</u>
 CASH AND CASH EQUIVALENTS		
Beginning of year	940,562	1,489,619
End of year	<u>\$ 826,389</u>	<u>\$ 1,499,480</u>
 Reconciliation of operating income (loss) to cash provided by (used for) operating activities		
Operating income (loss)	\$ 47,386	\$ 10,686
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation	4,059	-
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(15,752)	(16,120)
(Increase) decrease in deferred outflows of resources	(60,036)	-
Increase (decrease) in accounts payable	1,232	(524)
Increase (decrease) in compensated absences	1,645	-
Increase (decrease) in net pension liability	135,768	-
Increase (decrease) in due to other funds	(53,108)	-
Increase (decrease) in deferred inflows of resources	(13,265)	-
Net cash provided by (used for) operating activities	<u>\$ 47,929</u>	<u>\$ (5,958)</u>

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

SYLVAN UNION SCHOOL DISTRICT
FIDUCIARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2018

	<u>Agency Funds</u> <u>Student Body</u> <u>Fund</u>
ASSETS	
Cash and investments	\$ 227,446
Total Assets	<u>\$ 227,446</u>
LIABILITIES	
Due to student groups	\$ 227,446
Total Liabilities	<u>\$ 227,446</u>

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

SYLVAN UNION SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The Sylvan Union School District (the “District”) accounts for its financial transactions in accordance with the policies and procedures of the Department of Education's *California School Accounting Manual*. The accounting policies of the District conform to generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

The District operates under a locally elected Board form of government and provides educational services to grades K-8 as mandated by the state. A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student-related activities.

B. Component Units

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete. The District has no such component units.

C. Basis of Presentation

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

The statement of activities presents a comparison between direct expenses and program revenue for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reserved for the statement of activities. 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 of 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.

SYLVAN UNION SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

C. **Basis of Presentation** (*continued*)

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

Governmental funds are used to account for activities that are governmental in nature. Governmental activities are typically tax-supported and include education of pupils, operation of food service and child development programs, construction and maintenance of school facilities, and repayment of long-term debt.

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 District, normally on a full cost-recovery basis. Proprietary funds are generally intended to be self-supporting.

Fiduciary funds are used to account for assets held by the District in a trustee or agency capacity for others that cannot be used to support the District's own programs.

Major Governmental Funds

General Fund: The General Fund is the main operating fund of the District. It is used to account for all activities except those that are required to be accounted for in another fund. In keeping with the minimum number of funds principle, all of the District's activities are reported in the General Fund unless there is a compelling reason to account for an activity in another fund. A District may have only one General Fund.

Non-Major Governmental Funds

Special Revenue Funds: Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects. The District maintains the following special revenue funds:

Cafeteria Special Revenue Fund: This fund is used to account separately for federal, state, and local resources to operate the food service program (*Education Code Sections 38090–38093*). The Cafeteria Special Revenue Fund shall be 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*).

Deferred Maintenance Fund: This fund is used to account separately for state apportionments and the District's contributions for deferred maintenance purposes (*Education Code Sections 17582–17587*). In addition, whenever the state funds provided pursuant to *Education Code Sections 17584 and 17585* (apportionments from the State Allocation Board) are insufficient to fully match the local funds deposited in this fund, the governing board of a school district may transfer the excess local funds deposited in this fund to any other expenditure classifications in other funds of the District (*Education Code Sections 17582 and 17583*).

SYLVAN UNION SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

C. Basis of Presentation (*continued*)

Non-Major Governmental Funds (*continued*)

Capital Project Funds: Capital project funds are established to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).

Building Fund: This 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. Other authorized revenues to the Building Fund are proceeds from the sale or lease-with-option-to-purchase of real property (*Education Code Section 17462*) and revenue from rentals and leases of real property specifically authorized for deposit into the fund by the governing board (*Education Code Section 41003*).

Capital Facilities Fund: This fund is used primarily to account separately for moneys received from fees levied on developers or other agencies as a condition of approving a development (*Education Code Sections 17620–17626*). The authority for these levies may be county/city ordinances (*Government Code Sections 65970–65981*) or private agreements between the District and the developer. Interest earned in the Capital Facilities Fund is restricted to that fund (*Government Code Section 66006*).

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

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

Debt Service Funds: Debt service funds are established to account for the accumulation of resources for and the payment of principal and interest on general long-term debt.

Bond Interest and Redemption Fund: This fund is used for the repayment of bonds issued for the District (*Education Code Sections 15125–15262*). The board of supervisors of the county issues the bonds. The proceeds from the sale of the bonds are deposited in the county treasury to the Building Fund of the District. Any premiums or accrued interest received from the sale of the bonds must be deposited in the Bond Interest and Redemption Fund of the District. The county auditor maintains control over the District's Bond Interest and Redemption Fund. The principal and interest on the bonds must be paid by the county treasurer from taxes levied by the county auditor-controller.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

C. Basis of Presentation (*continued*)

Proprietary Funds

Enterprise Funds: Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services.

Child Development Fund: This enterprise fund is used to account for the District's financial transactions related to child care in the District.

Internal Service Funds: Internal service funds are created principally to render services to other organizational units of the District on a cost-reimbursement basis. These funds are designed to be self-supporting with the intent of full recovery of costs, including some measure of the cost of capital assets, through user fees and charges.

Self-Insurance Fund: Self-insurance funds are used to separate moneys received for self-insurance activities from other operating funds of the District. Separate funds may be established for each type of self-insurance activity, such as workers' compensation, health and welfare, and deductible property loss (*Education Code Section 17566*).

Fiduciary Funds

Trust and Agency Funds: Trust and agency funds are used to account for assets held in a trustee or agent capacity for others that cannot be used to support the District's own programs. 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.

Student Body Fund: The Student Body Fund is an agency fund and, therefore, consists only of accounts such as cash and balancing liability accounts, such as due to student groups. The student body itself maintains its own general fund, which accounts for the transactions of that entity in raising and expending money to promote the general welfare, morale, and educational experiences of the student body (*Education Code Sections 48930–48938*).

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

D. **Basis of Accounting – Measurement Focus**

Government-Wide, Proprietary, and Fiduciary Financial Statements

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide, proprietary, and fiduciary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

Net Position equals assets and deferred outflows of resources minus liabilities and deferred inflows of resources. Net 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. The net position should be reported as restricted when constraints placed on its 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 results from special revenue funds and the restrictions on their use.

Proprietary funds distinguish operating revenues and expenses from non operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the internal service fund are charges to other funds for self insurance costs. Operating expenses for internal service funds include the costs of insurance premiums and claims related to self-insurance.

Governmental Funds

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Governmental funds use the modified accrual basis of accounting.

Revenues – Exchange and Non-Exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under 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 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" means collectible within the current period or within 60 days after year-end. However, to achieve comparability of reporting among California school 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 school districts as collectible within one year.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, and entitlements. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from the grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

D. Basis of Accounting – Measurement Focus (*continued*)

Revenues – Exchange and Non-Exchange Transactions (*continued*)

Eligibility requirements include timing requirements, which specify the year when the resources are to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Under the 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 that have not met eligibility requirements are recorded as unearned revenue. On the governmental fund financial statements, receivables that will not be collected within the available period are also recorded as unearned revenue.

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

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

Cash and Cash Equivalents

The District's cash and cash equivalents consist of 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 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.

SYLVAN UNION SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

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

Inventories

Inventories are recorded using the purchases method in that the cost is recorded as an expenditure at the time the individual inventory items are requisitioned. Inventories are valued at historical cost and consist of expendable supplies held for consumption.

Capital Assets

The accounting and reporting treatment applied to the capital assets associated with a fund is determined by its measurement focus. Capital assets are reported in the governmental activities column of the government-wide statement of net position, but are not reported in the fund financial statements.

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their acquisition value as of the date received. The District maintains a capitalization threshold of \$5,000. The District does not own any infrastructure as defined in GASB Statement No. 34. 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. All reported capital assets, except for land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over 2 – 50 years depending on asset types.

Interfund Balances

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

Compensated Absences

Accumulated unpaid employee vacation benefits are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide financial statements. 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 resource. These amounts are recorded in the fund from which the employees who have accumulated leave are paid.

Accumulated sick leave benefits are not recognized as liabilities of the District. The District's policy is to record sick leave as an operating expense in the period taken because such benefits do not vest, nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits when the employee retires.

Accrued Liabilities and Long-Term Obligations

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

SYLVAN UNION SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

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

Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the total OPEB liability, deferred outflows of resources related to OPEB and deferred inflows of resources related to OPEB, and OPEB expense have been determined by an independent actuary. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms.

Generally accepted accounting principles require the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date	July 1, 2017
Measurement Date	June 30, 2018
Measurement Period	July 1, 2017 to June 30, 2018

Gains and losses related to changes in total OPEB liability are recognized in OPEB expense systematically over time. The first amortized amounts are recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense. The amortization period differs depending on the source of gain or loss. The difference between projected and actual earnings is amortized on a straight-line basis over five years. All other amounts are amortized on a straight-line basis over the average expected remaining service lives of all members that are provided with benefits (active, inactive, and retired) at the beginning of the measurement period.

Premiums and Discounts

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

Deferred Outflows/Deferred Inflows of Resources

In addition to assets, the District will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the District will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

SYLVAN UNION SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

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

Pensions

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

Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - The nonspendable fund balance classification reflects amounts that are not in spendable form. Examples include inventory, prepaid items, the long-term portion of loans receivable, and nonfinancial assets held for resale. This classification also reflects amounts that are in spendable form but that are legally or contractually required to remain intact, such as the principal of a permanent endowment.

Restricted - The restricted fund balance classification reflects amounts subject to externally imposed and legally enforceable constraints. Such constraints may be imposed by creditors, grantors, contributors, or laws or regulations of other governments, or may be imposed by law through constitutional provisions or enabling legislation.

SYLVAN UNION SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

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

Fund Balance (*continued*)

Committed - The committed fund balance classification reflects amounts subject to internal constraints self-imposed by formal action of the Governing Board. The constraints giving rise to committed fund balance must be imposed no later than the end of the reporting period. The actual amounts may be determined subsequent to that date but prior to the issuance of the financial statements. In contrast to restricted fund balance, committed fund balance may be redirected by the government to other purposes as long as the original constraints are removed or modified in the same manner in which they were imposed, that is, by the same formal action of the Governing Board.

Assigned - The assigned fund balance classification reflects amounts that the government *intends* to be used for specific purposes. Assignments may be established either by the Governing Board or by a designee of the governing body, and are subject to neither the restricted nor committed levels of constraint. In contrast to the constraints giving rise to committed fund balance, constraints giving rise to assigned fund balance are not required to be imposed, modified, or removed by formal action of the Governing Board. The action does not require the same level of formality and may be delegated to another body or official. Additionally, the assignment need not be made before the end of the reporting period, but rather may be made any time prior to the issuance of the financial statements.

Unassigned - In the General Fund only, the unassigned fund balance classification reflects the residual balance that has not been assigned to other funds and that is not restricted, committed, or assigned to specific purposes. However, deficits in any fund, including the General Fund that cannot be eliminated by reducing or eliminating amounts assigned to other purposes are reported as negative unassigned fund balance.

The District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

F. Interfund Activity

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

SYLVAN UNION SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. 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.

H. Budgetary Data

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

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

I. 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 Auditor-Controller bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

SYLVAN UNION SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

J. New Accounting Pronouncements

GASB Statement No. 75 – In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This standard's primary objective is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions. The Statement is effective for periods beginning after June 15, 2017. The District has implemented GASB Statement No. 75 for the year ended June 30, 2018.

GASB Statement No. 84 – In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. This standard's primary objective is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The statement is effective for periods beginning after December 15, 2018. The District has not yet determined the impact on the financial statements.

GASB Statement No. 85 – In March 2017, GASB issued Statement No. 85, *Omnibus 2017*. This standard's primary objective is to address practice issues that have been identified during implementation and application of certain GASB Statements. This statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The statement is effective for periods beginning after June 15, 2017. The District has implemented GASB Statement No. 85 for the year ended June 30, 2018.

GASB Statement No. 87 – In June 2017, GASB issued Statement No. 87, *Leases*. This standard's primary objective is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The statement is effective for periods beginning after December 15, 2019. The District has not determined the impact on the financial statements.

GASB Statement No. 88 – In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. This standard's primary objective is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The statement is effective for periods beginning after June 15, 2018. The District has not determined the impact on the financial statements.

SYLVAN UNION SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2018

NOTE 2 – CASH AND INVESTMENTS

A. Summary of Cash and Investments

	Governmental	Internal Service	Total	Business-Type	Fiduciary
	Funds	Funds	Governmental	Activities	Funds
			Activities		
Investment in county treasury	\$ 33,607,511	\$ 1,499,480	\$ 35,106,991	\$ 826,289	\$ -
Cash on hand and in banks	-	-	-	-	227,446
Cash in revolving fund	11,000	-	11,000	100	-
Total cash and investments	\$ 33,618,511	\$ 1,499,480	\$ 35,117,991	\$ 826,389	\$ 227,446

B. 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; collateralized mortgage obligations; and the County Investment Pool.

Investment in County Treasury – The District maintains substantially all of its cash in the County Treasury in accordance with *Education Code Section 41001*. The Stanislaus County Treasurer’s pooled investments are managed by the County Treasurer who reports on a monthly basis to the board of supervisors. In addition, the function of the County Treasury Oversight Committee is to review and monitor the County’s investment policy. The committee membership includes the Treasurer and Tax Collector, the Auditor-Controller, Chief Administrative Officer, Superintendent of Schools Representative, and a public member. The fair value of the District’s investment in the pool is 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.

SYLVAN UNION SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 2 – CASH AND INVESTMENTS (continued)

C. General Authorizations

Except for investments by trustees of debt proceeds, the authority to invest District funds deposited with the county treasury is delegated to the County Treasurer and Tax Collector. Additional information about the investment policy of the County Treasurer and Tax Collector may be obtained from its website. The table below identifies the investment types permitted by California Government Code.

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

D. 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 manages its exposure to interest rate risk by investing in the County Treasury. The District maintains a pooled investment with the County Treasury with a fair value of approximately \$35,799,188 and an amortized book value of \$35,933,280. The average weighted maturity for this pool is 244 days.

E. Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The investments in the County Treasury are not required to be rated. As of June 30, 2018, the pooled investments in the County Treasury were not rated.

SYLVAN UNION SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 2 – CASH AND INVESTMENTS (continued)

F. 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. The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2018, the District's bank balance was not exposed to custodial credit risk.

G. Fair Value

The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy 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 (unadjusted) in active markets for identical assets.

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, either directly or indirectly.

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

Uncategorized - Investments in the Stanislaus 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 at June 30, 2018 were as follows:

	Uncategorized
Investment in county treasury	\$ 35,799,188
Total fair market value of investments	\$ 35,799,188

SYLVAN UNION SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2018 consisted of the following:

	<u>General Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Internal Service Funds</u>	<u>Total Governmental Activities</u>	<u>Total Business- Type Activities</u>
Federal Government					
Categorical aid	\$ 404,023	\$ 306,527	\$ -	\$ 710,550	\$ -
State Government					
Categorical aid	23,784	23,623	-	47,407	-
Lottery	341,785	-	-	341,785	-
Local Government					
Other local sources	218,500	136,468	116,215	471,183	83,075
Total	\$ 988,092	\$ 466,618	\$ 116,215	\$ 1,570,925	\$ 83,075

NOTE 4 – INTERFUND TRANSACTIONS

A. Interfund Receivables/Payables (Due from/Due to)

At June 30, 2018, interfund receivables/payables were as follows:

<u>Due To Other Funds</u>	<u>Due From Other Funds</u>		
	<u>General Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total</u>
General Fund	\$ -	\$ 6,440	\$ 6,440
Non-Major Governmental Funds	154,431	-	154,431
Child Development Enterprise Fund	47	70	117
Total Due From Other Funds	\$ 154,478	\$ 6,510	\$ 160,988

Due from the Cafeteria Fund to the General Fund for indirect costs.	\$ 154,418
Due from the Special Reserve Fund for Capital Outlay Projects to the General Fund for sales tax.	13
Due from the Child Development Enterprise Fund to the General Fund for sales and use tax.	47
Due from the General Fund to the Cafeteria Fund for sales and use tax.	6,440
Due from the Child Development Enterprise Fund to the Cafeteria Fund for sales and use tax.	70
Total	\$ 160,988

SYLVAN UNION SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 4 – INTERFUND TRANSACTIONS (continued)

B. Operating Transfers

Interfund transfers for the year ended June 30, 2018 consisted of the following:

Interfund Transfers Out	Interfund Transfers In		
	General Fund	Non-Major Governmental Funds	Total
General Fund	\$ -	\$ 2,191,235	\$ 2,191,235
Non-Major Governmental Funds	2,672,438	3,428,644	6,101,082
Child Development Enterprise Fund	47	172,990	173,037
Total Interfund Transfers	\$ 2,672,485	\$ 5,792,869	\$ 8,465,354
Transfer from the General Fund to the Special Reserve Fund for Capital Outlay Projects for buses and equipment replacement.			\$ 225,000
Transfer from the General Fund to the Cafeteria Fund for sales and use tax and ongoing maintenance.			6,440
Transfer from the General Fund to the Deferred Maintenance Fund for reimbursement for modernization project.			1,959,795
Transfer from the Cafeteria Fund to the General Fund for sales tax.			1,368
Transfer from the Building Fund to the General Fund for modernization project.			2,671,070
Transfer from the Child Development Enterprise Fund to the General Fund for sales and use tax.			47
Transfer from the Child Development Enterprise Fund to the Special Reserve Fund for Capital Outlay Projects for playground.			172,920
Transfer from the Building Fund to the Cafeteria Fund for sales and use tax.			70
Transfer from the Building Fund to the Deferred Maintenance Fund for reimbursement for modernization project.			740,830
Transfer from the County School Facilities Fund to the Special Reserve Fund for Capital Outlay Projects for reimbursement for project.			2,687,814
Total			\$ 8,465,354

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018 for governmental activities was as follows:

	Balance July 01, 2017	Additions	Deletions	Balance June 30, 2018
Governmental Activities				
Capital assets not being depreciated				
Land	\$ 23,015,113	\$ -	\$ -	\$ 23,015,113
Construction in progress	6,241,161	3,267,619	5,720,987	3,787,793
Total Capital Assets not Being Depreciated	29,256,274	3,267,619	5,720,987	26,802,906
Capital assets being depreciated				
Land improvements	1,446,511	17,920	-	1,464,431
Buildings & improvements	145,035,809	7,031,865	-	152,067,674
Furniture & equipment	12,568,359	132,760	37,045	12,664,074
Total Capital Assets Being Depreciated	159,050,679	7,182,545	37,045	166,196,179
Less Accumulated Depreciation				
Land improvements	936,547	64,689	-	1,001,236
Buildings & improvements	35,987,424	2,820,828	-	38,808,252
Furniture & equipment	6,405,676	515,143	37,045	6,883,774
Total Accumulated Depreciation	43,329,647	3,400,660	37,045	46,693,262
Governmental Activities				
Capital Assets, net	\$ 144,977,306	\$ 7,049,504	\$ 5,720,987	\$ 146,305,823

SYLVAN UNION SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 5 – CAPITAL ASSETS (continued)

Capital asset activity for the year ended June 30, 2018 for business-type activities was as follows:

	Balance July 01, 2017	Additions	Deletions	Balance June 30, 2018
Business-Type Activities				
Capital assets being depreciated				
Land improvements	\$ 62,440	\$ -	\$ -	\$ 62,440
Buildings & improvements	119,754	-	-	119,754
Furniture & equipment	32,204	-	-	32,204
Total Capital Assets Being Depreciated	214,398	-	-	214,398
Less Accumulated Depreciation				
Land improvements	58,011	1,380	-	59,391
Buildings & improvements	107,163	1,534	-	108,697
Furniture & equipment	30,152	1,145	-	31,297
Total Accumulated Depreciation	195,326	4,059	-	199,385
Business-Type Activities				
Capital Assets, net	\$ 19,072	\$ (4,059)	\$ -	\$ 15,013

Depreciation expense for the year ended June 30, 2018 was charged to governmental activities as follows:

Instruction	\$ 2,387,394
Instructional supervision and administration	16,835
Instructional library, media, and technology	113,262
School site administration	146,236
Home-to-school transportation	177,107
Food services	244,510
All other pupil services	2,831
Centralized data processing	1,200
All other general administration	40,002
Plant services	217,564
Community services	53,719
Total	\$ 3,400,660

Depreciation expense of \$4,059 for Business-Type Activities was charged to the Enterprise function.

SYLVAN UNION SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 6 – ACCRUED LIABILITIES

Accrued liabilities at June 30, 2018 consisted of the following:

	General Fund	Non-Major Governmental Funds	District-Wide	Total Governmental Activities	Total Business- Type Activities
Payroll	\$ 2,327,238	\$ 11,530	\$ -	\$ 2,338,768	\$ 4,593
Construction	-	2,049	-	2,049	-
Vendors payable	572,830	7,570	-	580,400	1,355
Unmatured interest	-	-	398,375	398,375	-
Total	\$ 2,900,068	\$ 21,149	\$ 398,375	\$ 3,319,592	\$ 5,948

NOTE 7 – UNEARNED REVENUE

Unearned revenue at June 30, 2018 consisted of the following:

	General Fund
Federal sources	\$ 6,498
Local sources	12,321
Total	\$ 18,819

SYLVAN UNION SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 8 – LONG-TERM DEBT

A schedule of changes in long-term debt for the year ended June 30, 2018 consisted of the following:

	Restated				
	Balance			Balance	Balance Due
	July 01, 2017	Additions	Deductions	June 30, 2018	In One Year
Governmental Activities					
General obligation bonds	\$ 36,250,514	\$ 7,288,746	\$ 1,145,000	\$ 42,394,260	\$ 605,448
Unamortized premium	2,710,307	892,096	267,958	3,334,445	267,958
Total general obligation bonds	38,960,821	8,180,842	1,412,958	45,728,705	873,406
Compensated absences	267,678	25,459	-	293,137	-
Energy loan	1,461,701	-	73,085	1,388,616	73,085
Total OPEB liability	8,694,378	142,606	-	8,836,984	-
Net pension liability	77,332,235	10,970,194	-	88,302,429	-
Total	\$ 126,716,813	\$ 19,319,101	\$ 1,486,043	\$ 144,549,871	\$ 946,491
	Balance			Balance	Balance Due
	July 01, 2017	Additions	Deductions	June 30, 2018	In One Year
Business-Type Activities					
Compensated absences	\$ 22,014	\$ 1,645	\$ -	\$ 23,659	\$ -
Net pension liability	785,351	135,768	-	921,119	-
Total	\$ 807,365	\$ 137,413	\$ -	\$ 944,778	\$ -

- Payments for general obligation bonds are made in the Bond Interest and Redemption Fund.
- Payments for the energy loan are made in the General Fund.
- Payments for compensated absences are made in the fund in which the employee worked.

A. Compensated Absences

Total unpaid employee compensated absences as of June 30, 2018 amounted to \$293,137 for governmental activities and \$23,659 for business-type activities. These amounts are included as part of long-term liabilities in the government-wide financial statements.

SYLVAN UNION SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 8 – LONG-TERM DEBT (continued)

B. General Obligation Bonds

The District’s outstanding general obligation bonds at June 30, 2018 were as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds			Bonds Outstanding June 30, 2018
				Outstanding July 01, 2017	Additions	Deductions	
June 17, 2010	August 1, 2049	3.14-6.66%	\$ 11,996,169	\$ 18,610,514	\$ 1,288,746	\$ 40,000	\$ 19,859,260
February 22, 2011	September 1, 2017	3.00-4.00%	4,860,000	325,000	-	325,000	-
August 16, 2016	August 1, 2030	2.00-5.00%	17,315,000	17,315,000	-	780,000	16,535,000
November 16, 2017	August 1, 2032	3.00-5.00%	6,000,000	-	6,000,000	-	6,000,000
				\$ 36,250,514	\$ 7,288,746	\$ 1,145,000	\$ 42,394,260

On June 17, 2010, the District issued Series 2010 General Obligation Capital Appreciation Bonds and Convertible Capital Appreciation Bonds in the amount of \$11,996,169. The proceeds of the 2010 General Obligation Capital Appreciation Bonds and Convertible Capital Appreciation Bonds will be used for the specific school facilities projects. The Bonds accrue interest of between 3.14% and 6.66% per annum from the date of the issuance. The Capital Appreciation Bonds will accrete interest annually until 2033 at which time they will convert into current interest bonds which will mature through August 2049 as follows:

Year Ended June 30,	Principal	Interest	Total
2019	\$ 35,448	\$ 14,552	\$ 50,000
2020	36,388	18,612	55,000
2021	43,138	26,862	70,000
2022	43,022	31,978	75,000
2023	45,244	39,756	85,000
2024 - 2028	236,301	333,699	570,000
2029 - 2033	902,176	6,641,319	7,543,495
2034 - 2038	694,023	16,960,925	17,654,948
2039 - 2043	2,249,879	19,931,002	22,180,881
2044 - 2048	4,749,092	23,239,363	27,988,455
2049 - 2050	2,894,382	10,252,674	13,147,056
Accretion	7,930,167	(7,930,167)	-
Total	\$ 19,859,260	\$ 69,560,575	\$ 89,419,835

On February 22, 2011, the District issued Series 2011 General Obligation Bonds in the amount of \$4,860,000. The final payment on the bonds was made on September 1, 2017.

SYLVAN UNION SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 8 – LONG-TERM DEBT (continued)

B. General Obligation Bonds (continued)

On August 16, 2016 the District issued 2016 General Obligation Refunding Bonds in the amount of \$17,315,000. Interest rates ranged from 2.00 to 5.00 percent, and the bonds mature through August 1, 2030.

The Series 2016 General Obligation Refunding Bonds are scheduled to mature as follows:

Year Ended June 30,	Principal	Interest	Total
2019	\$ 570,000	\$ 671,450	\$ 1,241,450
2020	660,000	640,700	1,300,700
2021	750,000	605,450	1,355,450
2022	855,000	565,325	1,420,325
2023	970,000	519,700	1,489,700
2024 - 2028	6,815,000	1,695,875	8,510,875
2029 - 2031	5,915,000	201,450	6,116,450
Total	\$ 16,535,000	\$ 4,899,950	\$ 21,434,950

On November 16, 2017 the District issued Election of 2006, Series C Bonds in the amount of \$6,000,000. Interest rates ranged from 3.00 to 5.00 percent, and the bonds mature through August 1, 2032.

The Election of 2006, Series C Bonds are scheduled to mature as follows:

Year Ended June 30,	Principal	Interest	Total
2019	\$ -	\$ 270,400	\$ 270,400
2020	710,000	252,650	962,650
2021	210,000	229,650	439,650
2022	280,000	217,400	497,400
2023	300,000	202,900	502,900
2024 - 2028	1,895,000	753,875	2,648,875
2029 - 2033	2,605,000	211,625	2,816,625
Total	\$ 6,000,000	\$ 2,138,500	\$ 8,138,500

SYLVAN UNION SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 8 – LONG-TERM DEBT (continued)

C. California Energy Commission Loan

The District entered into a loan agreement with the California Energy Commission (CEC) during the 2015-2016 fiscal year. The proceeds from the loan will be used for energy efficiency projects within the District. The loan was offered with a zero percent interest rate, and the District will commence repayment beginning in the 2017-2018 fiscal year. Proceeds from the first draw-down request in the amount of \$617,840 were received during the 2015-2016 fiscal year, and additional proceeds in the amount of \$843,861 were received during the 2016-17 fiscal year.

The future payments on the CEC loan at June 30, 2018 were as follows:

<u>Year Ended June 30,</u>	<u>Principal Payment</u>
2019	\$ 73,085
2020	73,085
2021	73,085
2022	73,085
2023	73,085
2024 - 2028	365,425
2029 - 2033	365,425
2034 - 2037	292,341
Total	<u>\$ 1,388,616</u>

D. Other Postemployment Benefits

The District's restated beginning total OPEB liability was \$8,694,378 and increased by \$142,606 during the year ended June 30, 2018. The ending total OPEB liability at June 30, 2018 was \$8,836,984. See Note 11 for additional information regarding the total OPEB liability.

E. Net Pension Liability

The District's beginning net pension liability was \$78,117,586 and increased by \$11,105,962 during the year ended June 30, 2018. The ending net pension liability at June 30, 2018 was \$89,223,548. See Note 12 for additional information regarding the net pension liability.

SYLVAN UNION SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 9 – SELF-INSURANCE

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

The District participates in the Modesto City Schools Risk Management Authority (MCSRMA), an insurance purchasing pool, for property, liability and workers' compensation coverage. The intent of MCSRMA is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in MCSRMA. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

The Dental Program, for which the District retains risk of loss, is administered by the Self-Insurance fund. Under this program, the Self-Insurance fund provides coverage for a maximum of \$2,000 per year per participant. The District has contracted with a commercial insurance carrier to provide these employee health benefits. The District pays a monthly payment based on rates set by the carrier. Claims are paid for all participants regardless of claims flow. The Self-Insurance 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, 2016 to June 30, 2018:

	<u>Dental</u>
Liability Balance, July 01, 2016	\$ 64,162
Claims & changes in estimates	1,184,262
Claims payments	<u>(1,247,900)</u>
Liability Balance, July 01, 2017	524
Claims & changes in estimates	1,341,556
Claims payments	<u>(1,342,080)</u>
Liability Balance, June 30, 2018	<u>\$ -</u>
 Assets available to pay claims at June 30, 2018	 <u>\$ 1,615,695</u>

SYLVAN UNION SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 10 – FUND BALANCES

Fund balances were composed of the following elements at June 30, 2018:

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
Non-spendable			
Revolving cash	\$ 10,000	\$ 1,000	\$ 11,000
Stores inventory	-	209,768	209,768
Total non-spendable	<u>10,000</u>	<u>210,768</u>	<u>220,768</u>
Restricted			
Educational programs	3,552,966	-	3,552,966
Capital projects	-	5,232,878	5,232,878
Debt service	-	3,021,028	3,021,028
All others	-	1,267,940	1,267,940
Total restricted	<u>3,552,966</u>	<u>9,521,846</u>	<u>13,074,812</u>
Committed			
Deferred maintenance	-	2,701,798	2,701,798
Total committed	<u>-</u>	<u>2,701,798</u>	<u>2,701,798</u>
Assigned			
Insurance deductibles	200,000	-	200,000
Professional learning	287,663	-	287,663
Textbooks	1,720,683	-	1,720,683
Other postemployment benefits	1,081,307	-	1,081,307
Total assigned	<u>3,289,653</u>	<u>-</u>	<u>3,289,653</u>
Unassigned			
Reserve for economic uncertainties	2,531,200	-	2,531,200
Remaining unassigned	10,524,839	-	10,524,839
Total unassigned	<u>13,056,039</u>	<u>-</u>	<u>13,056,039</u>
Total	<u>\$ 19,908,658</u>	<u>\$ 12,434,412</u>	<u>\$ 32,343,070</u>

The District is committed to maintaining a prudent level of financial resources to protect against the need to reduce service levels because of temporary revenue shortfalls or unpredicted expenditures. The District's Minimum Fund Balance 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.

SYLVAN UNION SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 11 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

A. Plan Description

The Sylvan Union School District’s defined benefit OPEB plan, Sylvan Union School District Retiree Benefit Plan (the Plan) is described below. The Plan is a single employer defined benefit plan administered by the District. The District currently provides retiree health benefits to eligible certificated, classified and management employees. Eligibility requirements vary by employee classification.

B. Benefits Provided

The eligibility requirements and benefits provided by the Plan are described below as follows:

Certificated and Certificated Management employees who retire after age 55 with at least 10 years of service are eligible for a District contribution equal to the retiree-only premium for the medical HMO of their choice. District contributions continue until age 65.

Classified, Classified Management and Confidential employees who retire after age 60 with at least 15 years of service are eligible for a District contribution equal to 100% of the retiree-only premium for the first three years and 50% of the retiree-only premium for the final two years of benefits.

Board Members who have served 12 years and whose first term with the District began prior to January 1, 1995 are entitled to benefits like those provided to Certificated employees.

C. Contributions

The contribution requirements of Plan members and the Sylvan Union School District are established and may be amended by the Sylvan Union School District. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75.

D. Plan Membership

Membership of the Plan consisted of the following:

	<u>Number of participants</u>
Inactive employees receiving benefits	35
Inactive employees entitled to but not receiving benefits*	-
Participating active employees	743
Total number of participants**	778

*Information not provided

**As of the July 1, 2017 valuation date

SYLVAN UNION SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 11 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (continued)

E. Total OPEB Liability

The Sylvan Union School District’s total OPEB liability of \$8,836,984 was measured as of June 30, 2018 and was determined by an actuarial valuation as of July 1, 2017.

F. Actuarial Assumptions and Other Inputs

The total OPEB liability in the July 1, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified:

Economic assumptions:

Salary increases	3.00%
Discount rate	3.62%
Healthcare cost trend rates	6.00%

Non-economic assumptions:

Pre-retirement mortality rates were based on the RP-2014 Employee Mortality Table for Males or Females, as appropriate, without projection. Post-retirement mortality rates were based on the RP-2014 Health Annuitant Mortality Table for Males or Females, as appropriate, without projection.

Actuarial assumptions used in the July 1, 2017 valuation were based on a review of plan experience during the period July 1, 2015 to June 30, 2017. The discount rate was based on the index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

The actuary assumed contributions would be sufficient to fully fund the obligation over a period not to exceed thirty years.

SYLVAN UNION SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 11 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (continued)

G. Changes in Total OPEB Liability

	<u>June 30, 2018</u>
Total OPEB Liability	
Service Cost	\$ 572,806
Interest on total OPEB liability	267,084
Changes of assumptions	(372,079)
Benefits payments	<u>(325,205)</u>
Net change in total OPEB liability	142,606
Total OPEB liability - beginning	<u>8,694,378</u>
Total OPEB liability - ending	<u>\$ 8,836,984</u>
Covered payroll	\$ 52,259,974
District's total OPEB liability as a percentage of covered payroll	17%

The Sylvan Union School District has invoked Paragraph 244 of GASB Statement 75 for the transition due to cost constraints. Consequently, in order to determine the beginning total OPEB liability, a “roll-back” technique has been used.

H. Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the Sylvan Union School District, as well as what the District’s total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.62 percent) or one percentage point higher (4.62 percent) than the current discount rate:

	1% Decrease	Valuation	1% Increase
	(2.62%)	Discount Rate	(4.62%)
	<u> </u>	<u> </u>	<u> </u>
Total OPEB liability	\$ 9,616,024	\$ 8,836,984	\$ 8,132,690

I. Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following presents the total OPEB liability of the Sylvan Union School District, as well as what the District’s total OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower (5.00 percent) or one percentage point higher (7.00 percent) than the current healthcare cost trend rate:

	1% Decrease	Valuation Trend	1% Increase
	(5.00%)	Rate	(7.00%)
	<u> </u>	<u> </u>	<u> </u>
Total OPEB liability	\$ 7,907,719	\$ 8,836,984	\$ 9,911,385

SYLVAN UNION SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 11 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (continued)

J. OPEB Expense and Deferred Outflows and Deferred Inflows of Resources Related to OPEB

For the fiscal year ended June 30, 2018, the Sylvan Union School District recognized OPEB expense of \$778,893. At June 30, 2018, the Sylvan Union School District reported deferred outflows of resources related to OPEB and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Inflows of Resources</u>
Changes in assumptions	\$ 311,082
	<u>\$ 311,082</u>

Amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ended June 30,</u>	<u>Deferred Inflows of Resources</u>
2019	\$ 60,997
2020	60,997
2021	60,997
2022	60,997
2023	60,997
2024	6,097
	<u>\$ 311,082</u>

Prior periods of deferred outflows and deferred inflows of resources were not restated due to the fact that prior valuations were not rerun in accordance with Paragraph 244 of GASB Statement 75. It was determined the time and expense necessary to rerun prior valuations and to restate prior financial statements was not justified. In the future, gains and losses related to changes in total OPEB liability will be recognized in OPEB expense systematically over time. The first amortized amounts are recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense. The amortization period differs depending on the source of gain or loss. The difference between projected and actual earnings is amortized on a straight-line basis over five years. All other amounts are amortized on a straight-line basis over the average expected remaining service lives of all members that are provided with benefits (active, inactive, and retired) at the beginning of the measurement period.

SYLVAN UNION SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 12 – PENSION PLANS

Qualified employees are covered under multiple-employer contributory retirement plans maintained by agencies of the State of California. Certificated employees are members of the California State Teachers' Retirement System (CalSTRS), and classified employees are members of the California Public Employees' Retirement System (CalPERS). The District reported its proportionate share of the net pension liabilities, pension expense, deferred outflow of resources, and deferred inflow of resources for each of the above plans as follows:

	<u>Net pension liability</u>	<u>Deferred outflows related to pensions</u>	<u>Deferred inflows related to pensions</u>	<u>Pension expense</u>
STRS Pension	\$ 67,471,805	\$ 20,214,364	\$ 3,340,210	\$ 7,125,807
PERS Pension	21,751,743	7,131,437	256,100	3,307,801
Total	\$ 89,223,548	\$ 27,345,801	\$ 3,596,310	\$ 10,433,608

A. California State Teachers' Retirement System (CalSTRS)

Plan Description

The District contributes to the California State Teachers' Retirement System (CalSTRS); a cost-sharing multiple employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 7919 Folsom Blvd., Sacramento, CA 95826.

Benefits Provided

The CalSTRS defined benefit plan has two benefit formulas:

1. CalSTRS 2% at 60: Members first hired on or before December 31, 2012, to perform service that could be creditable to CalSTRS. CalSTRS 2% at 60 members are eligible for normal retirement at age 60, with a minimum of five years of credited service. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service. Early retirement options are available at age 55 with five years of credited service or as early as age 50 with 30 years of credited service. The age factor for retirements after age 60 increases with each quarter year of age to 2.4 percent at age 63 or older. Members who have 30 years or more of credited service receive an additional increase of up to 0.2 percent to the age factor, known as the career factor. The maximum benefit with the career factor is 2.4 percent of final compensation.
2. CalSTRS 2% at 62: Members first hired on or after January 1, 2013, to perform service that could be creditable to CalSTRS. CalSTRS 2% at 62 members are eligible for normal retirement at age 62, with a minimum of five years of credited service. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service. An early retirement option is available at age 55. The age factor for retirement after age 62 increases with each quarter year of age to 2.4 percent at age 65 or older.

SYLVAN UNION SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 12 – PENSION PLANS (continued)

A. California State Teachers’ Retirement System (CalSTRS) (continued)

Contributions

Active plan CalSTRS 2% at 60 and 2% at 62 members are required to contribute 10.25% and 9.205% of their salary for fiscal year 2018, respectively, and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2018 was 14.43% of annual payroll. The contribution requirements of the plan members are established by state statute. Contributions to the plan from the District were \$5,706,575 for the year ended June 30, 2018.

On-Behalf Payments

The District was the recipient of on-behalf payments made by the State of California to CalSTRS for K-12 education. These payments consist of state general fund contributions of approximately \$3,246,007 to CalSTRS.

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

At June 30, 2018, 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:

District's proportionate share of the net pension liability	\$ 67,471,805
State's proportionate share of the net pension liability associated with the District	<u>39,916,075</u>
Total	<u>\$ 107,387,880</u>

The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2016 and rolling forward the total pension liability to June 30, 2017. 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. At June 30, 2017, the District’s proportion was 0.073 percent, which was a decrease of 0.001 percent from its proportion measured as of June 30, 2016.

SYLVAN UNION SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2018

NOTE 12 – PENSION PLANS (continued)

A. California State Teachers’ Retirement System (CalSTRS) (continued)

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

For the year ended June 30, 2018, the District recognized pension expense of \$7,125,807. In addition, the District recognized pension expense and revenue of \$1,147,242 for support provided by the State. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between projected and actual earnings on plan investments	\$ -	\$ 1,796,962
Differences between expected and actual experience	249,517	1,176,817
Changes in assumptions	12,499,939	
Changes in proportion and differences between District contributions and proportionate share of contributions	1,758,333	366,431
District contributions subsequent to the measurement date	5,706,575	-
	<u>\$ 20,214,364</u>	<u>\$ 3,340,210</u>

The \$5,706,575 reported as 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 year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
2019	\$ 2,520,492	\$ 1,818,053
2020	2,520,492	(807,842)
2021	2,520,492	161,445
2022	2,520,493	1,922,018
2023	2,300,909	185,465
2024	2,124,911	61,071
	<u>\$ 14,507,789</u>	<u>\$ 3,340,210</u>

SYLVAN UNION SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 12 – PENSION PLANS (continued)

A. California State Teachers’ Retirement System (CalSTRS) (continued)

Actuarial Assumptions

The total pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2016, and rolling forward the total pension liability to June 30, 2017 using the following actuarial assumptions, applied to all periods included in the measurement:

Consumer Price Inflation	2.75%
Investment Rate of Return*	7.10%
Wage Inflation	3.50%

* Net of investment expenses, but gross of administrative expenses.

CalSTRS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are based on MP-2016 series tables adjusted to fit CalSTRS experience.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2010–June 30, 2015.

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 (Pension Consulting Alliance–PCA) as an input to the process. The actuarial investment rate of return assumption was adopted by the board in February 2017 in conjunction with the most recent experience study. For each future valuation, CalSTRS consulting actuary (Milliman) reviews the return assumption for reasonableness based on the most current capital market assumptions. Best estimates of 20-year geometrically-linked real rates of return and the assumed asset allocation for each major asset class for the year ended June 30, 2017, are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return*
Global Equity	47%	6.30%
Fixed Income	12%	0.30%
Real Estate	13%	5.20%
Private Equity	13%	9.30%
Absolute Return/Risk Mitigating Strategies	9%	2.90%
Inflation Sensitive	4%	3.80%
Cash/Liquidity	2%	-1.00%
	100%	

*20-year geometric average

SYLVAN UNION SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 12 – PENSION PLANS (continued)

A. California State Teachers’ Retirement System (CalSTRS) (continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.10 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates in accordance with the rate increases per AB 1469. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.10 percent) and assuming that contributions, benefit payments, and administrative expense occur midyear. Based on those assumptions, the Plan’s fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the District’s proportionate share of the net pension liability calculated using the discount rate of 7.10 percent, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.10 percent) or 1-percentage-point higher (8.10 percent) than the current rate:

	1% Decrease (6.10%)	Current Discount Rate (7.10%)	1% Increase (8.10%)
District's proportionate share of the net pension liability	\$ 99,070,030	\$ 67,471,805	\$ 41,827,704

Pension Plan Fiduciary Net Position

Detailed information about the pension plan’s fiduciary net position is available in the separately issued CalSTRS financial report.

NOTE 12 – PENSION PLANS (continued)

B. California Public Employees’ Retirement System (CalPERS)

Plan Description

The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS); a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees' Retirement Laws. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95811.

Benefits Provided

The benefits for the defined benefit plan are based on members’ years of service, age, final compensation, and benefit formula. Benefits are provided for disability, death, and survivors of eligible members or beneficiaries. Members become fully vested in their retirement benefits earned to date after five years of credited service.

Contributions

Active plan members who entered into the plan prior to January 1, 2013, are required to contribute 7.0% of their salary. The California Public Employees’ Pension Reform Act (PEPRA) specifies that new members entering into the plan on or after January 1, 2013, shall pay the higher of fifty percent of normal costs or 6.5% of their salary. Additionally, for new members entering the plan on or after January 1, 2013, the employer is prohibited from paying any of the employee contribution to CalPERS unless the employer payment of the member’s contribution is specified in an employment agreement or collective bargaining agreement that expires after January 1, 2013.

The District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2018 was 15.531% of annual payroll. Contributions to the plan from the District were \$1,876,448 for the year ended June 30, 2018.

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

At June 30, 2018, the District reported a liability of \$21,751,743 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2016 and rolling forward the total pension liability to June 30, 2017. 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. At June 30, 2017, the District’s proportion was 0.091 percent, which was a decrease of 0.003 percent from its proportion measured as of June 30, 2016.

SYLVAN UNION SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2018

NOTE 12 – PENSION PLANS (continued)

B. California Public Employees’ Retirement System (CalPERS) (continued)

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

For the year ended June 30, 2018, the District recognized pension expense of \$3,307,801. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between projected and actual earnings on plan investments	\$ 752,462	\$ -
Differences between expected and actual experience	779,275	-
Changes in assumptions	3,177,184	256,100
Changes in proportion and differences between District contributions and proportionate share of contributions	546,068	-
District contributions subsequent to the measurement date	1,876,448	-
	<u>\$ 7,131,437</u>	<u>\$ 256,100</u>

The \$1,876,448 reported as 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 year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
2019	\$ 1,828,299	\$ 256,100
2020	2,256,039	-
2021	1,582,698	-
2022	(412,047)	-
	<u>\$ 5,254,989</u>	<u>\$ 256,100</u>

SYLVAN UNION SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2018

NOTE 12 – PENSION PLANS (*continued*)

B. California Public Employees’ Retirement System (CalPERS) (*continued*)

Actuarial Assumptions

The total pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2016, and rolling forward the total pension liability to June 30, 2017 using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Discount Rate	7.15%
Salary Increases	Varies by Entry Age and Service

CalPERS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are derived using CalPERS’ membership data for all funds. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.

The actuarial assumptions used in the June 30, 2016, valuation were based on the results of an actuarial experience study for the period from 1997 to 2011.

The long-term expected rate of return on pension plan investments was determined using a building block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. In determining the long-term expected rate of return, both short-term and long-term market return expectations as well as the expected pension fund cash flows were taken into account. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds’ asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

SYLVAN UNION SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2018

NOTE 12 – PENSION PLANS (continued)

B. California Public Employees’ Retirement System (CalPERS) (continued)

Actuarial Assumptions (continued)

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

Asset Class	Assumed Asset Allocation	Real Return Years 1 – 10*	Real Return Years 11+**
Global Equity	47.0%	4.90%	5.38%
Fixed Income	19.0%	0.80%	2.27%
Inflation Assets	6.0%	0.60%	1.39%
Private Equity	12.0%	6.60%	6.63%
Real Estate	11.0%	2.80%	5.21%
Infrastructure and Forestland	3.0%	3.90%	5.36%
Liquidity	2.0%	-0.40%	-0.90%
	100.0%		

*An expected inflation of 2.50% used for this period.
 **An expected inflation of 3.00% used for this period.

Discount Rate

The discount rate used to measure the total pension liability was 7.15 percent. A projection of the expected benefit payments and contributions was performed to determine if assets would run out. The test revealed the assets would not run out. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for the Schools Pool. The results of the crossover testing for the Schools Pool are presented in a detailed report that can be obtained at CalPERS’ website.

Sensitivity of the District’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the District’s proportionate share of the net pension liability calculated using the discount rate of 7.15 percent, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.15 percent) or 1-percentage-point higher (8.15 percent) than the current rate:

	1% Decrease (6.15%)	Current Discount Rate (7.15%)	1% Increase (8.15%)
District's proportionate share of the net pension liability	\$ 32,003,784	\$ 21,751,743	\$ 13,246,816

SYLVAN UNION SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 12 – PENSION PLANS (continued)

B. California Public Employees’ Retirement System (CalPERS) (continued)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan’s fiduciary net position is available in the separately issued CalPERS financial report.

NOTE 13 – COMMITMENTS AND CONTINGENCIES

A. 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, 2018.

B. Litigation

The District is involved in various litigation arising from In the opinion of the normal course of business. 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, 2018.

C. Construction Commitments

As of June 30, 2018, the District had commitments with respect to unfinished projects of \$792,031.

NOTE 14 – PARTICIPATION IN JOINT POWERS AUTHORITIES

The District participates in two joint ventures under joint powers authorities (JPAs), the Modesto City Schools Risk Management Authority and the School Infrastructure Financing Agency. The relationships between the District and the JPAs are such that the JPAs are not component units of the District for financial reporting purposes.

The JPAs 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 JPAs and the District are included in these statements. The audited financial statements are generally available from the respective entities.

SYLVAN UNION SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 15 – DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

A. Refunded Debt

Pursuant to GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, the District recognized deferred outflows or inflows of resources in the District-wide financial statements. The deferred outflow of resources pertains to the difference in the carrying value of the refunded debt and its reacquisition price (deferred amount on refunding). Previous financial reporting standards require this to be presented as part of the District’s long-term debt. This deferred outflow of resources is recognized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the new debt, whichever is shorter. At June 30, 2018, the deferred amount on refunding was \$87,753.

B. Pension Plans

Pursuant to GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, the District recognized deferred outflows of resources related to pensions and deferred inflows of resources related to pensions in the District-wide financial statements. Further information regarding the deferred outflows of resources and deferred inflows of resources can be found at Note 12. At June 30, 2018, total deferred outflows related to pensions was \$27,345,801 and total deferred inflows related to pensions was \$3,596,310.

C. Other Postemployment Benefits

Pursuant to GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, the District recognized deferred outflows of resources related to other postemployment benefits and deferred inflows of resources related to other postemployment benefits in the District-wide financial statements. Further information regarding the deferred outflows of resources and deferred inflows of resources can be found at Note 11. At June 30, 2018, total deferred inflows related to other postemployment benefits was \$311,082.

NOTE 16 – RESTATEMENT OF NET POSITION

The beginning net position of Governmental Activities has been restated in order to record the District’s total OPEB liability in accordance with GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The effect on beginning net position is presented as follows:

	Governmental Activities
Net Position - Beginning, as Previously Reported	\$ 65,731,886
Restatement	(4,555,162)
Net Position - Beginning, as Restated	<u>\$ 61,176,724</u>

**REQUIRED SUPPLEMENTARY
INFORMATION**

**SYLVAN UNION SCHOOL DISTRICT
GENERAL FUND – BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2018**

	Budgeted Amounts		Actual* (Budgetary Basis)	Variances - Final to Actual
	Original	Final		
REVENUES				
LCFF sources	\$ 66,005,027	\$ 66,066,151	\$ 66,190,553	\$ 124,402
Federal sources	4,635,826	4,684,300	4,695,717	11,417
Other state sources	2,327,853	3,665,173	3,657,016	(8,157)
Other local sources	3,974,383	3,882,349	4,886,436	1,004,087
Total Revenues	76,943,089	78,297,973	79,429,722	1,131,749
EXPENDITURES				
Certificated salaries	39,043,940	39,030,720	39,282,309	(251,589)
Classified salaries	12,633,009	12,694,213	12,634,092	60,121
Employee benefits	15,830,644	15,318,021	14,839,250	478,771
Books and supplies	5,314,144	3,454,336	1,933,877	1,520,459
Services and other operating expenditures	8,896,146	9,368,637	7,772,295	1,596,342
Capital outlay	3,048,604	3,711,596	3,941,108	(229,512)
Other outgo				
Excluding transfers of indirect costs	1,691,719	1,724,790	1,595,234	129,556
Transfers of indirect costs	(147,408)	(147,408)	(153,064)	5,656
Total Expenditures	86,310,798	85,154,905	81,845,101	3,309,804
Excess (Deficiency) of Revenues				
Over Expenditures	(9,367,709)	(6,856,932)	(2,415,379)	4,441,553
Other Financing Sources (Uses)				
Transfers in	-	-	2,672,485	2,672,485
Transfers out	(562,000)	(562,000)	(2,528,235)	(1,966,235)
Net Financing Sources (Uses)	(562,000)	(562,000)	144,250	706,250
NET CHANGE IN FUND BALANCE	(9,929,709)	(7,418,932)	(2,271,129)	5,147,803
Fund Balance - Beginning	18,555,570	21,098,480	21,098,480	-
Fund Balance - Ending	\$ 8,625,861	\$ 13,679,548	\$ 18,827,351	\$ 5,147,803

* The actual amounts reported on this schedule do not agree with the amounts reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance for the following reasons:

- On behalf payments of \$3,246,005 are not included in the actual revenues and expenditures reported in this schedule.
- Actual amounts reported in this schedule are for the General Fund only, and do not agree with the amounts reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances because the amounts on that schedule include the financial activity of the Special Reserve Fund for Other Postemployment Benefits in accordance with the fund type definitions promulgated by GASB Statement No. 54.

**SYLVAN UNION SCHOOL DISTRICT
SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>June 30, 2018</u>
Total OPEB Liability	
Service Cost	\$ 572,806
Interest on total OPEB liability	267,084
Changes of assumptions	(372,079)
Benefits payments	<u>(325,205)</u>
Net change in total OPEB liability	142,606
Total OPEB liability - beginning	<u>8,694,378</u>
Total OPEB liability - ending	<u>\$ 8,836,984</u>
Covered payroll	\$ 52,259,974
District's total OPEB liability as a percentage of covered payroll	17%

See accompanying note to required supplementary information.

**SYLVAN UNION SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
- CALSTRS
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
District's proportion of the net pension liability	0.073%	0.074%	0.072%	0.070%
District's proportionate share of the net pension liability	\$ 67,471,805	\$ 59,476,785	\$ 48,402,683	\$ 40,830,455
State's proportionate share of the net pension liability associated with the District	39,916,075	33,864,058	25,599,616	24,776,194
Total	<u>\$ 107,387,880</u>	<u>\$ 93,340,843</u>	<u>\$ 74,002,299</u>	<u>\$ 65,606,649</u>
District's covered payroll	\$ 38,718,438	\$ 36,721,698	\$ 33,936,573	\$ 31,120,691
District's proportionate share of the net pension liability as a percentage of its covered payroll	174.3%	162.0%	142.6%	131.2%
Plan fiduciary net position as a percentage of the total pension liability	69.5%	70.0%	74.0%	76.5%

The amounts presented for each fiscal year were determined as of the year-end that occurred one year prior.

**SYLVAN UNION SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
- CALPERS
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
District's proportion of the net pension liability	0.091%	0.094%	0.093%	0.091%
District's proportionate share of the net pension liability	\$ 21,751,743	\$ 18,640,801	\$ 13,738,668	\$ 10,354,312
District's covered payroll	\$ 11,623,445	\$ 11,290,588	\$ 10,384,674	\$ 9,574,550
District's proportionate share of the net pension liability as a percentage of its covered payroll	187.1%	165.1%	132.3%	108.1%
Plan fiduciary net position as a percentage of the total pension liability	71.9%	73.9%	79.4%	83.4%

The amounts presented for each fiscal year were determined as of the year-end that occurred one year prior.

**SYLVAN UNION SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS - CALSTRS
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Contractually required contribution	\$ 5,706,575	\$ 4,866,944	\$ 3,938,938	\$ 3,013,162
Contributions in relation to the contractually required contribution*	(5,706,575)	(4,866,944)	(3,938,938)	(3,013,162)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 39,567,975	\$ 38,718,438	\$ 36,721,698	\$ 33,936,573
Contributions as a percentage of covered payroll	14.42%	12.57%	10.73%	8.88%

*Amounts do not include on-behalf contributions

**SYLVAN UNION SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS - CALPERS
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Contractually required contribution	\$ 1,876,448	\$ 1,542,516	\$ 1,283,547	\$ 1,222,380
Contributions in relation to the contractually required contribution	(1,876,448)	(1,542,516)	(1,283,547)	(1,222,380)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 12,691,999	\$ 11,623,445	\$ 11,290,588	\$ 10,384,674
Contributions as a percentage of covered payroll	14.78%	13.27%	11.37%	11.77%

See accompanying note to required supplementary information.

**SYLVAN UNION SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 1 – PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

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

Schedule of Changes in Total OPEB Liability and Related Ratios

This 10-year schedule is required by GASB Statement No. 75 for all sole and agent employers that provide other postemployment benefits (OPEB). Until a full 10-year trend is compiled, the schedule will only show those years under which GASB Statement No. 75 was applicable. The schedule presents the sources of change in the total OPEB liability, and the components of the total OPEB liability and related ratios, including the total OPEB liability as a percentage of covered-employee payroll.

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

This 10-year schedule is required by GASB Statement No. 68 for each cost-sharing pension plan. Until a full 10-year trend is compiled, the schedule will only show those years under which GASB Statement No. 68 was applicable. The schedule presents the District's proportion (percentage) of the collective net pension liability, the District's proportionate share (amount) of the collective net pension liability, the District's covered payroll, the District's proportionate share (amount) of the collective net pension liability as a percentage of the employer's covered payroll, and the pension plan's fiduciary net position as a percentage of the total pension liability.

Changes in Benefit Terms

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

Changes in Assumptions

The CalSTRS plan rate of investment return assumption was changed from 7.60 percent to 7.10 percent since the previous valuation. The CalPERS plan rate of investment return assumption was changed from 7.65 percent to 7.15 percent since the previous valuation.

**SYLVAN UNION SCHOOL DISTRICT
 NOTES TO REQUIRED SUPPLEMENTARY INFORMATION, continued
 FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 1 – PURPOSE OF SCHEDULES (continued)

Schedule of District Contributions

This 10-year schedule is required by GASB Statement No. 68 for each cost-sharing pension plan. Until a full 10-year trend is compiled, the schedule will only show those years under which GASB Statement No. 68 was applicable. The schedule presents the District’s statutorily or contractually required employer contribution, the amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution, the difference between the statutorily or contractually required employer contribution and the amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution, the District’s covered payroll, and the amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution as a percentage of the District’s covered payroll.

NOTE 2 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended June 30, 2018, the District incurred an excess of expenditures over appropriations in individual major funds presented in the Budgetary Comparison Schedule by major object code as follows:

	Expenditures and Other Uses		
	Budget	Actual	Excess
General Fund			
Certificated salaries	\$ 39,030,720	\$ 39,282,309	\$ 251,589
Capital outlay	\$ 3,711,596	\$ 3,941,108	\$ 229,512

**SUPPLEMENTARY
INFORMATION**

**SYLVAN UNION SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018**

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster</u>	<u>CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
U. S. DEPARTMENT OF EDUCATION:			
<i>Passed through California Department of Education:</i>			
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329	\$ 1,995,482
Title II, Part A, Teacher Quality	84.367	14341	269,550
Title III			
Title III, English Learner Student Program	84.365	14346	107,639
Title III, Immigrant Education Program	84.365	15146	11,730
Subtotal Title III			<u>119,369</u>
Special Education Cluster			
IDEA Basic Local Assistance Entitlement, Part B, Sec 611	84.027	13379	1,717,087
IDEA Local Assistance, Part B, Sec 611, Private School ISPs	84.027	10115	22,127
Subtotal Special Education Cluster			<u>1,739,214</u>
Total U. S. Department of Education			<u>4,123,615</u>
U. S. DEPARTMENT OF AGRICULTURE:			
<i>Passed through California Department of Education:</i>			
Child Nutrition Cluster			
School Breakfast Program - Basic	10.553	13525	67,980
School Breakfast Program - Needy	10.553	13526	437,146
National School Lunch Program	10.555	13391	1,941,301
USDA Commodities	10.555	*	242,358
Meal Supplements	10.555	*	31,971
Subtotal Child Nutrition Cluster			<u>2,720,756</u>
Total U. S. Department of Agriculture			<u>2,720,756</u>
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
<i>Passed through California Department of Health Services:</i>			
Medicaid			
Medi-Cal Billing Option	93.778	10013	266,425
Medi-Cal Administrative Activities	93.778	10060	305,677
Subtotal Medicaid			<u>572,102</u>
Total U. S. Department of Health & Human Services			<u>572,102</u>
Total Federal Expenditures			<u>\$ 7,416,473</u>

* - Pass-Through Entity Identifying Number not available or not applicable

**SYLVAN UNION SCHOOL DISTRICT
SCHEDULE OF AVERAGE DAILY ATTENDANCE (ADA)
FOR THE YEAR ENDED JUNE 30, 2018**

	Second Period Report	Annual Report
	<032AA45D>	<FCCA3C83>
SCHOOL DISTRICT		
TK/K through Third		
Regular ADA	3,305.66	3,315.48
Extended Year Special Education	-	5.87
Total TK/K through Third	3,305.66	3,321.35
Fourth through Sixth		
Regular ADA	2,558.80	2,560.92
Extended Year Special Education	-	2.60
Total Fourth through Sixth	2,558.80	2,563.52
Seventh through Eighth		
Regular ADA	1,853.19	1,855.85
Extended Year Special Education	-	1.68
Total Seventh through Eighth	1,853.19	1,857.53
TOTAL SCHOOL DISTRICT	7,717.65	7,742.40

**SYLVAN UNION SCHOOL DISTRICT
 SCHEDULE OF INSTRUCTIONAL TIME
 FOR THE YEAR ENDED JUNE 30, 2018**

Grade Level	Minutes Requirement	2017-18	Number of Days	Status
		Actual Minutes		
Kindergarten	36,000	36,000	180	Complied
Grade 1	50,400	52,240	180	Complied
Grade 2	50,400	52,240	180	Complied
Grade 3	50,400	52,240	180	Complied
Grade 4	54,000	54,004	180	Complied
Grade 5	54,000	54,004	180	Complied
Grade 6	54,000	60,160	180	Complied
Grade 7	54,000	60,670	180	Complied
Grade 8	54,000	60,670	180	Complied

**SYLVAN UNION SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2018**

	2019 (Budget)	2018	2017	2016
General Fund - Budgetary Basis**				
Revenues And Other Financing Sources	\$ 83,480,365	\$ 82,102,207	\$ 79,711,298	\$ 78,644,975
Expenditures And Other Financing Uses	87,085,583	84,373,336	80,028,678	75,686,066
Net change in Fund Balance	\$ (3,605,218)	\$ (2,271,129)	\$ (317,380)	\$ 2,958,909
Ending Fund Balance	\$ 15,222,133	\$ 18,827,351	\$ 21,098,480	\$ 21,415,860
Available Reserves*	\$ 11,565,860	\$ 13,056,039	\$ 12,308,185	\$ 12,388,244
Available Reserves As A Percentage Of Outgo	13.28%	15.47%	15.38%	16.37%
Long-term Debt	\$ 143,603,380	\$ 144,549,871	\$ 122,161,651	\$ 105,421,173
Average Daily Attendance At P-2	7,699	7,718	7,761	7,865

The General Fund balance has decreased by \$2,588,509 over the past two years. The fiscal year 2018-19 budget projects a decrease of \$3,605,218. For a District this size, the State recommends available reserves of at least 3% of 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 2018-19 fiscal year. Total long-term obligations have increased by \$39,128,698 over the past two years.

Average daily attendance has decreased by 147 ADA over the past two years. A decrease of 19 ADA is anticipated during the 2018-19 fiscal year.

*Available reserves consist of all unassigned fund balance within the General Fund.

** On behalf payments of \$3,246,005 are not included in the actual revenues and expenditures reported in this schedule. Actual amounts reported in this schedule are for the General Fund only, and do not agree with the amounts reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances because the amounts on that schedule include the financial activity of the Special Reserve Fund for Other Postemployment Benefits in accordance with the fund type definitions promulgated by GASB Statement No. 54.

**SYLVAN UNION SCHOOL DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

	General Fund	Special Reserve Fund for Other Postemployment Benefits	Child Development Enterprise Fund
June 30, 2018, annual financial and budget report fund balance	\$ 18,827,351	\$ 1,081,307	\$ 894,753
Adjustments and reclassifications:			
Increase (decrease) in total fund balances:			
Allocation of STRS and PERS pensions	-	-	(605,045)
Fund balance transfer (GASB 54)	1,081,307	(1,081,307)	-
Net adjustments and reclassifications	1,081,307	(1,081,307)	(605,045)
June 30, 2018, audited financial statement fund balance	\$ 19,908,658	\$ -	\$ 289,708

See accompanying note to supplementary information.

**SYLVAN UNION SCHOOL DISTRICT
SCHEDULE OF CHARTER SCHOOLS
FOR THE YEAR ENDED JUNE 30, 2018**

Charter #	Charter School	Status	Included in Audit Report
1026	Aspire University Charter	Closed*	No

*Closed effective June 30, 2018.

**SYLVAN UNION SCHOOL DISTRICT
COMBINING BALANCE SHEET
JUNE 30, 2018**

	Cafeteria Fund	Deferred Maintenance Fund	Building Fund	Capital Facilities Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Bond Interest & Redemption Fund	Non-Major Governmental Funds
ASSETS								
Cash and investments	\$ 1,077,316	\$ 2,701,798	\$ 1,805,914	\$ 181,125	\$ 2,256	\$ 3,137,659	\$ 3,021,028	\$ 11,927,096
Accounts receivable	358,632	-	-	107,986	-	-	-	466,618
Due from other funds	6,510	-	-	-	-	-	-	6,510
Stores inventory	209,768	-	-	-	-	-	-	209,768
Total Assets	\$ 1,652,226	\$ 2,701,798	\$ 1,805,914	\$ 289,111	\$ 2,256	\$ 3,137,659	\$ 3,021,028	\$ 12,609,992
LIABILITIES								
Accrued liabilities	\$ 19,100	\$ -	\$ 2,049	\$ -	\$ -	\$ -	\$ -	\$ 21,149
Due to other funds	154,418	-	-	-	-	13	-	154,431
Total Liabilities	173,518	-	2,049	-	-	13	-	175,580
FUND BALANCES								
Non-spendable	210,768	-	-	-	-	-	-	210,768
Restricted	1,267,940	-	1,803,865	289,111	2,256	3,137,646	3,021,028	9,521,846
Committed	-	2,701,798	-	-	-	-	-	2,701,798
Total Fund Balances	1,478,708	2,701,798	1,803,865	289,111	2,256	3,137,646	3,021,028	12,434,412
Total Liabilities and Fund Balance	\$ 1,652,226	\$ 2,701,798	\$ 1,805,914	\$ 289,111	\$ 2,256	\$ 3,137,659	\$ 3,021,028	\$ 12,609,992

See accompanying note to supplementary information.

**SYLVAN UNION SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 FOR THE YEAR ENDED JUNE 30, 2018**

	Cafeteria Fund	Deferred Maintenance Fund	Building Fund	Capital Facilities Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Bond Interest & Redemption Fund	Non-Major Governmental Funds
REVENUES								
Federal sources	\$ 2,720,756	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 196	\$ 2,720,952
Other state sources	191,111	-	-	-	2,687,814	-	18,043	2,896,968
Other local sources	1,320,152	2,927	10,942	155,749	2,256	5,670	1,334,603	2,832,299
Total Revenues	4,232,019	2,927	10,942	155,749	2,690,070	5,670	1,352,842	8,450,219
EXPENDITURES								
Current								
Pupil services								
Food services	3,861,646	-	-	-	-	-	-	3,861,646
General administration								
All other general administration	153,064	-	-	4,748	-	-	-	157,812
Plant services	67,159	-	-	-	-	-	-	67,159
Facilities acquisition and maintenance	-	1,755	615,177	-	-	239,405	-	856,337
Debt service								
Principal	-	-	-	-	-	-	1,145,000	1,145,000
Interest and other	-	-	180,000	-	-	-	774,905	954,905
Total Expenditures	4,081,869	1,755	795,177	4,748	-	239,405	1,919,905	7,042,859
Excess (Deficiency) of Revenues								
Over Expenditures	150,150	1,172	(784,235)	151,001	2,690,070	(233,735)	(567,063)	1,407,360
Other Financing Sources (Uses)								
Transfers in	6,510	2,700,625	-	-	-	3,085,734	-	5,792,869
Other sources	-	-	6,000,000	-	-	-	892,096	6,892,096
Transfers out	(1,355)	-	(3,411,900)	-	(2,687,814)	(13)	-	(6,101,082)
Net Financing Sources (Uses)	5,155	2,700,625	2,588,100	-	(2,687,814)	3,085,721	892,096	6,583,883
NET CHANGE IN FUND BALANCE	155,305	2,701,797	1,803,865	151,001	2,256	2,851,986	325,033	7,991,243
Fund Balance - Beginning	1,323,403	1	-	138,110	-	285,660	2,695,995	4,443,169
Fund Balance - Ending	\$ 1,478,708	\$ 2,701,798	\$ 1,803,865	\$ 289,111	\$ 2,256	\$ 3,137,646	\$ 3,021,028	\$ 12,434,412

See accompanying note to supplementary information.

**SYLVAN UNION SCHOOL DISTRICT
 LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
 JUNE 30, 2018**

The Sylvan Union School District was established in 1946 under the laws of the State of California. The District is currently operating ten elementary schools and three intermediate schools. All of the District’s schools are located in Stanislaus County. The District is comprised of approximately 23 square miles. There were no changes to the District’s boundaries during the current year.

GOVERNING BOARD

Member	Office	Term Expires
Ms. Cynthia Lindsey	President	December 2022
Mr. David Collins	Vice President	December 2020
Ms. Christine Harvey	Member	December 2022
Ms. Jennifer Miyakawa	Member	December 2020
Mr. George Rawe	Member	December 2022

DISTRICT ADMINISTRATORS

Ms. Debra Hendricks
Superintendent

Ms. Didi Peterson
Assistant Superintendent, Human Resources

Ms. Laura Wharff
Assistant Superintendent, Curriculum

Ms. Yvonne Perez
Assistant Superintendent, Business Services

Ms. Lisa Sandoval
Director of Fiscal Services

**SYLVAN UNION SCHOOL DISTRICT
 NOTES TO SUPPLEMENTARY INFORMATION
 JUNE 30, 2018**

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 following schedule provides reconciliation between revenues reported on the Statement of Revenue, Expenditures, and Changes in Fund Balance, and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts represent Federal funds that have been recorded as revenues in a prior year that have been expended by June 30, 2018 or Federal funds that have been recorded as revenues in the current year and were not expended by June 30, 2018.

	CFDA	
	Number	Amount
	_____	_____
Total Federal Revenues reported in the Statement of Revenues, Expenditures, and Changes in Fund Balance		\$ 7,416,669
FHA in lieu tax	*	(196)
Total Expenditures reported in the Schedule of Expenditures of Federal Awards		<u>\$ 7,416,473</u>

* The federal revenue for the FHA in lieu tax does not have a CFDA number.

The District has not elected to use the 10 percent de minimis indirect cost rate.

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

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 46208*. During the year ended June 30, 2018, the District participated in the Longer Day incentive funding program. As of June 30, 2018, the District had not yet met its target funding.

SYLVAN UNION SCHOOL DISTRICT
NOTES SUPPLEMENTARY INFORMATION, continued
JUNE 30, 2018

NOTE 1 – PURPOSE OF SCHEDULES, continued

Schedule of Financial Trends and Analysis

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

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

Schedule of Charter Schools

This schedule lists all Charter Schools chartered by the District, and displays information for each Charter School on whether or not the Charter School is included in the District audit.

Combining Statements – Non-Major Funds

These statements provide information on the District's non-major funds.

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.

**OTHER INDEPENDENT
AUDITORS' REPORTS**

**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**

Independent Auditors' Report

Governing Board
Sylvan Union School District
Modesto, 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, the major fund, and the aggregate remaining fund information of Sylvan Union School District, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Sylvan Union School District's basic financial statements, and have issued our report thereon dated December 10, 2018.

Internal Control over Financial Reporting

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

Christy White, CPA

Michael D. Ash, CPA

John Whitehouse, CPA

Heather Daud Rubio

SAN DIEGO

LOS ANGELES

SAN FRANCISCO/BAY AREA

Corporate Office:

348 Olive Street
San Diego, CA 92103

toll-free: 877.220.7229

tel: 619.270.8222

fax: 619.260.9085

www.christywhite.com

Licensed by the California

State Board of Accountancy

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Audit Findings and Questioned Costs that we consider to be significant deficiencies. (Findings #2018-001, #2018-002)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Sylvan Union 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*.

Sylvan Union School District's Response to Findings

Sylvan Union School District's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Sylvan Union School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



San Diego, California
December 10, 2018

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; AND REPORT
ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM
GUIDANCE**

Independent Auditors' Report

Christy White, CPA

Michael D. Ash, CPA

John Whitehouse, CPA

Heather Daud Rubio

Governing Board
Sylvan Union School District
Modesto, California

Report on Compliance for Each Major Federal Program

We have audited Sylvan Union School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Sylvan Union School District's major federal programs for the year ended June 30, 2018. Sylvan Union 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 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 Sylvan Union 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 Sylvan Union 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 Sylvan Union School District's compliance.

SAN DIEGO
LOS ANGELES
SAN FRANCISCO/BAY AREA

Corporate Office:
348 Olive Street
San Diego, CA 92103

toll-free: 877.220.7229
tel: 619.270.8222
fax: 619.260.9085
www.christywhite.com

*Licensed by the California
State Board of Accountancy*

Opinion on Each Major Federal Program

In our opinion, Sylvan Union 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, 2018.

Report on Internal Control Over Compliance

Management of Sylvan Union 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 Sylvan Union 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 Sylvan Union School District's internal control over compliance.

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

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

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

Christy White Associates

San Diego, California
December 10, 2018

REPORT ON STATE COMPLIANCE

Independent Auditors' Report

Christy White, CPA

Michael D. Ash, CPA

John Whitehouse, CPA

Heather Daud Rubio

Governing Board
Sylvan Union School District
Modesto, California

Report on State Compliance

We have audited Sylvan Union School District's compliance with the types of compliance requirements described in the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed in Title 5, *California Code of Regulations*, section 19810, that could have a direct and material effect on each of Sylvan Union School District's state programs for the fiscal year ended June 30, 2018, as identified below.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Sylvan Union School District's state 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 *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed in Title 5, *California Code of Regulations*, section 19810. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the state programs noted below occurred. An audit includes examining, on a test basis, evidence about Sylvan Union 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 with the requirements referred to above. However, our audit does not provide a legal determination of Sylvan Union School District's compliance with those requirements.

SAN DIEGO
LOS ANGELES
SAN FRANCISCO/BAY AREA

Corporate Office:
348 Olive Street
San Diego, CA 92103

toll-free: 877.220.7229
tel: 619.270.8222
fax: 619.260.9085
www.christywhite.com

*Licensed by the California
State Board of Accountancy*

Opinion on State Compliance

In our opinion, Sylvan Union School District complied, in all material respects, with the types of compliance requirements referred to above that are applicable to the state programs noted in the table below for the year ended June 30, 2018.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is described in the accompanying schedule of findings and questioned costs as item #2018-003. Our opinion on state compliance is not modified with respect to this matter.

Sylvan Union School District's response to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs and corrective action plan. Sylvan Union 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.

Procedures Performed

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

PROGRAM NAME	PROCEDURES PERFORMED
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	Not Applicable
Continuation Education	Not Applicable
Instructional Time	Yes
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	Not Applicable
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	Not Applicable
Middle or Early College High Schools	Not Applicable
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
Apprenticeship: Related and Supplemental Instruction	Not Applicable
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes

PROGRAM NAME	PROCEDURES PERFORMED
After/Before School Education and Safety Program	Yes
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study-Course Based	Not Applicable
Attendance; for charter schools	Not Applicable
Mode of Instruction; for charter schools	Not Applicable
Nonclassroom-Based Instruction/Independent Study; for charter schools	Not Applicable
Determination of Funding for Nonclassroom-Based Instruction; for charter schools	Not Applicable
Annual Instructional Minutes – Classroom Based; for charter schools	Not Applicable
Charter School Facility Grant Program	Not Applicable

Christy White Associates

San Diego, California
December 10, 2018

**SCHEDULE OF FINDINGS
AND QUESTIONED COSTS**

**SYLVAN UNION SCHOOL DISTRICT
SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2018**

FINANCIAL STATEMENTS

Type of auditors' report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>Yes</u>
Non-compliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major program:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>None Reported</u>
Type of auditors' report issued:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516(a)?	<u>No</u>
Identification of major programs:	

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>10.553, 10.555</u>	<u>Child Nutrition Cluster</u>

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

STATE AWARDS

Internal control over state programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>Yes</u>
Type of auditors' report issued on compliance for state programs:	<u>Unmodified</u>

**SYLVAN UNION SCHOOL DISTRICT
FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018**

FIVE DIGIT CODE

20000
30000

AB 3627 FINDING TYPE

Inventory of Equipment
Internal Control

FINDING #2018-001: ASSOCIATED STUDENT BODY (ASB) FUNDS (30000)

Criteria: Proper internal controls should be in place to ensure Associated Student Body (ASB) funds are properly collected, deposited and expended as part of the District's fiduciary duty. The Fiscal Crisis & Management Assistance Team (FCMAT) Associated Student Body Accounting Manual & Desk Reference outlines proper internal control procedures for associated student body accounts and references Education Code Section 48933 which gives guidance on associated student body deposits and preapproval of expenditures.

Condition: Through our testing of the school site ASB cash disbursements at Somerset Middle School we noted two (2) of ten (10) cash disbursements lacked proper approval of a site administrator.

Effect: Lack of proper internal controls can lead to the misappropriation of assets.

Cause: Lack of adequate oversight and/or noncompliance with District accounting policies.

Recommendation: We recommend that all organized ASB's obtain required signatures from a student council/club representative, ASB advisor, and site administrator on all purchase requisitions prior to the purchase of goods or services. The District should provide each student body account clerk with the latest FCMAT Associated Student Body Accounting Manual & Desk Reference and reinforce the importance for sound internal control procedures to be implemented.

Corrective Action Plan: The District contracted with FCMAT on June 1, 2018 to provide a comprehensive training to principals, teachers serving as ASB sponsors, middle school office staff, and district personnel. The training focused on the Associated Student Body Accounting Manual & Desk Reference, and best practices for proper internal control procedures for associated student body accounts. Purchasing requirements and cash control requirements were also reviewed. District Personnel will continue to provide and require annual training for staff involved with Associated Student Body activities.

**SYLVAN UNION SCHOOL DISTRICT
FINANCIAL STATEMENT FINDINGS, continued
FOR THE YEAR ENDED JUNE 30, 2018**

FINDING #2018-002: CASH DISBURSEMENTS INTERNAL CONTROLS (30000)

Criteria: Expenditures processed through the warrant disbursement process should obtain proper approval and funds should be encumbered prior to purchases of goods or services for proper budgeting practices.

Condition: During our testing of internal controls over cash disbursements, it was noted that proper pre-approval of expenditures was not obtained for three (3) of 25 disbursements. In all cases, purchases orders were dated after the invoice date.

Effect: The possibility to circumvent the purchasing process and not encumber funds or obtain required approvals.

Cause: Insufficient controls over purchasing and budgeting cycles.

Recommendation: All expenditures should be setup with a purchase order prior to the invoice date.

Corrective Action Plan: The Business Office will issue twice a year communication to all staff outlining requirements for purchasing to retain proper budgetary practices and cash controls. Invoices received without an approved purchase order on file may be rejected at the discretion of the Superintendent or designee with financial responsibility of the purchase reverting to the individual.

SYLVAN UNION SCHOOL DISTRICT
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018

FIVE DIGIT CODE

50000

AB 3627 FINDING TYPE

Federal Compliance

There were no Federal award findings and questioned costs for the year ended June 30, 2018.

**SYLVAN UNION SCHOOL DISTRICT
STATE AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

<u>FIVE DIGIT CODE</u>	<u>AB 3627 FINDING TYPE</u>
10000	Attendance
40000	State Compliance
42000	Charter School Facilities Programs
60000	Miscellaneous
61000	Classroom Teacher Salaries
62000	Local Control Accountability Plan
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

FINDING #2018-003 – UNDUPLICATED LOCAL CONTROL FUNDING FORMULA PUPIL COUNTS (40000)

Criteria: Students classified as English Learners only on the CalPADS 1.18 FRPM English Learner/Foster Youth-Student List Report must have supporting documentation that indicates the student was eligible for the designation. Auditors are required to verify compliance with Education Code Section 42238.02(b)(3)(b) in Section W of the 2017-18 *Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*.

Condition: 1 out of 7 pupils tested from the CALPADS 1.18 FRPM/English Learner/Foster Youth – Student List Report who were classified as English Learner (EL) was reclassified in prior year.

Effect: The District is not in compliance with applicable state requirements.

Cause: Lack of adequate oversight and reconciliation of CALPADS information system.

Questioned Costs: To determine questioned costs, the error rate (1/7) was extrapolated over the entire impacted population for all schools, as the error only related to EL determinations, only pupils eligible based on EL designation were considered. The total population of the area tested was 238. The extrapolated error rate disallowed an additional 37 students for a total of 38 students. The total questioned cost as calculated using the Unduplicated Pupil Count auditing finding template totaled \$28,803.

CalPADS	Revised
Unduplicated	Unduplicated
Pupil Count	Pupil Count
Audit	Adjustment
Adjustment	Adjustment
13,712	(38)
13,712	13,674

Recommendation: We recommend that the District ensure that the students designated as English Learners in the CALPADS 1.18 Report be closely monitored and properly designated.

**SYLVAN UNION SCHOOL DISTRICT
STATE AWARD FINDINGS AND QUESTIONED COSTS, continued
FOR THE YEAR ENDED JUNE 30, 2018**

FINDING #2018-003 – UNDUPLICATED LOCAL CONTROL FUNDING FORMULA PUPIL COUNTS (40000)
(continued)

Corrective Action Plan: The records in Aeries (Student Information System) were correct. As you can see the EL End Date and Redesignation (Reclassification) Date of 3/21/2017 are both reflected in Aeries correctly.

English Learner Program									
EL Start Date	EL End Date	Ys in Prgm	YPCalc Date	Program	Curr Lang Des	Lang of Inst	Eng Class Elig	Srvcs Rcvd	
8/30/2013	3/21/2017	3	8/8/2018	-	-	-	-	-	-

Reclassification Information												
Reasonable Fluency D	Redesignation Dt	Code	Follow-Up Dates/Codes									
			30 Day	Code	180 Day	Code	1 Yr	Code	2 Yr	Code	3 Yr	Code
	3/21/2017		4/21/2017		9/21/2017		3/21/2018		3/21/2019		3/21/2020	

The ELAS Code and ELAS Date fields in Aeries (see below) are populated through the CALPADS extract and upload process. This date and code are changed during a CALPADS upload into Aeries. These fields are static and cannot be modified by the district, and only through the upload from CALPADS.

ELAS Code	ELAS Date
EL	8/30/2013

In CALPADS the student’s English Language Acquisition Status (ELAS) is correct as you can see below.

Student English Language Acquisition				
	Reporting LEA	Acquisition Code	Status Date	Primary Language Code
OPEN	Sylvan Union Elementary - 5071290	Reclassified Fluent English Proficient-RFEP	03/21/2017	12 - Armenian
OPEN	Sylvan Union Elementary - 5071290	English Learner-EL	08/30/2013	12 - Armenian

Based on this information District personnel communicated with CALPADS personnel via email, phone, and video remote access on multiple occasions to determine why the ELAS Code and ELAS Date did not update in Aeries and why it did not report correctly on CALPADS FRPM 1.18 Fall 2017 report. District personnel will continue to pursue a remedy through CALPADS and closely monitor the transactions during certification.

District personnel closely monitor ELAS records throughout the school year in Aeries and CALPADS to assure that student data is correct. CALPADS data reconciliation with Aeries is a top priority where data from both systems will be compared and corrected to assure that student information is reported accurately. District personnel train site office staff to assure the process is clearly understood for ELAS records and that data is inputted correctly.

**SYLVAN UNION SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018**

There were no findings noted for the year ended June 30, 2017.