



SANTEE SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

JUNE 30, 2017

SANTEE SCHOOL DISTRICT

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FINANCIAL SECTION



VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Governing Board
Santee School District
Santee, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Santee School District (the District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2016-2017 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Santee School District, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 12, budgetary comparison schedule on page 71, schedule of other postemployment benefits funding progress on page 72, schedule of the district's proportionate share of net pension liability on page 73, and the schedule of district contributions on page 74, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Santee School District's basic financial statements. The accompanying supplementary information such as the combining and individual nonmajor fund financial statements and Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* and the other supplementary information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2017, on our consideration of the Santee 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 Santee 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 Santee School District's internal control over financial reporting and compliance.

Vavrinek, Trine, Day & Co. LLP

Rancho Cucamonga, California
December 8, 2017



SANTEE SCHOOL DISTRICT

SCHOOLS:

Cajon Park
Carlton Hills
Carlton Oaks
Chet F. Harritt
Hill Creek
Pepper Drive
PRIDE Academy
at Prospect Avenue
Rio Seco
Sycamore Canyon
Alternative
Success Program

This section of Santee School District's (the District) (2016-2017) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2017, with comparative information from 2016. Please read it in conjunction with the District's financial statements, which immediately follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

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

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

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

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

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

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

The Primary unit of the government is the Santee School District.

SANTEE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2017

FINANCIAL HIGHLIGHTS OF THE PAST YEAR

The District continues to focus on its Fiscal Accountability Goal to: Financially support the vision, mission, and goals of the District by maximizing resources, controlling expenses, and managing assets to ensure fiscal solvency and flexibility. In addition, the District continues its emphasis on increasing or improving services for students in accordance with its Local Control Accountability Plan. For 2016-2017 fiscal year, the District ended the year with an operating surplus in the Unrestricted General Fund, largely due to one-time revenues. The District continues to monitor budget and economic assumptions and conditions in order to proactively respond to changing circumstances and ensure the District maintains solvency and flexibility while providing the highest quality educational program.

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Position and the Statement of Activities

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

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

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

In the *Statement of Net Position* and the *Statement of Activities*, we separate the District activities as follows:

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

Business-Type Activities - The District charges fees to help it cover the costs of certain services it provides. The District's Project SAFE and YALE programs and services are included here.

SANTEE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2017

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

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

Governmental Funds - Most of the District's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual accounting*, which measures cash and all other *financial* assets that can readily be converted to cash.

The Governmental Fund Statements provide a detailed *short-term view* of the District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The differences of results in the governmental fund financial statements to those in the government-wide financial statements are explained in a reconciliation following each governmental fund financial statement.

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

THE DISTRICT AS A TRUSTEE

Reporting the District's Fiduciary Responsibilities

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

SANTEE SCHOOL DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

THE DISTRICT AS A WHOLE

Net Position

The District's net position was \$28,549,790 for the fiscal year ended June 30, 2017. Of this amount, (\$36,051,804) was unrestricted deficit. The 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 the net position for day-to-day operations. Our analysis below, in summary form, focuses on the net position (Table 1) and change in net position (Table 2) of the District's activities.

Table 1

	Governmental Activities		Business-Type Activities		Total School District	
	2017	2016	2017	2016	2017	2016
Assets						
Current and other assets	\$ 35,996,100	\$ 33,044,732	\$ 1,449,571	\$ 1,112,306	\$ 37,445,671	\$ 34,157,038
Capital assets	126,753,930	126,352,010	-	-	126,753,930	126,352,010
Total Assets	162,750,030	159,396,742	1,449,571	1,112,306	164,199,601	160,509,048
Deferred Outflows of Resources						
	28,736,217	26,455,593	867,119	571,714	29,603,336	27,027,307
Liabilities						
Current liabilities	3,515,215	2,946,697	66,703	34,062	3,581,918	2,980,759
Long-term obligations	98,661,636	97,651,470	209,028	153,529	98,870,664	97,804,999
Aggregate net pension liability	57,884,854	48,108,774	2,334,254	1,774,322	60,219,108	49,883,096
Total Liabilities	160,061,705	148,706,941	2,609,985	1,961,913	162,671,690	150,668,854
Deferred Inflows of Resources						
	2,508,665	9,304,033	72,792	450,009	2,581,457	9,754,042
Net Position						
Net investment in capital assets	53,503,442	36,382,514	-	153,529	53,503,442	36,536,043
Restricted	11,098,152	12,061,288	-	-	11,098,152	12,061,288
Unrestricted (Deficit)	(35,685,717)	(20,602,441)	(366,087)	(881,431)	(36,051,804)	(21,483,872)
Total Net Position	\$ 28,915,877	\$ 27,841,361	\$ (366,087)	\$ (727,902)	\$ 28,549,790	\$ 27,113,459

The (\$35,685,717) in unrestricted deficit net position of governmental activities represents the *accumulated* results of all past years' operations.

SANTEE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2017

Changes in Net Position

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

Table 2

	Governmental Activities		Business-Type Activities		Total School District	
	2017	2016	2017	2016	2017	2016
Revenues						
Program revenues:						
Charges for services	\$ 124,699	\$ 711,167	\$ -	\$ -	\$ 124,699	\$ 711,167
Operating grants and contributions	10,552,449	8,890,484	859,655	873,830	11,412,104	9,764,314
Capital grants and contributions	7	3,175	-	-	7	3,175
General revenues:						
Federal and State aid	39,697,667	40,313,197	-	-	39,697,667	40,313,197
Property taxes	18,359,675	15,857,069	-	-	18,359,675	15,857,069
Other general revenues	4,507,832	18,812,873	2,410,789	2,168,461	6,918,621	20,981,334
Total Revenues	73,242,329	84,587,965	3,270,444	3,042,291	76,512,773	87,630,256
Expenses						
Instruction	43,815,282	42,859,263	-	-	43,815,282	42,859,263
Instruction-related	6,386,900	6,075,768	-	-	6,386,900	6,075,768
Pupil services	7,001,296	6,224,250	-	-	7,001,296	6,224,250
Administration	4,687,111	4,353,557	-	-	4,687,111	4,353,557
Plant services	6,001,278	5,875,195	-	-	6,001,278	5,875,195
Community services	265,766	292,125	-	-	265,766	292,125
Enterprises	69,298	60,617	-	-	69,298	60,617
Other	3,961,052	14,858,092	2,888,459	2,657,080	6,849,511	17,515,172
Total Expenses	72,187,983	80,598,867	2,888,459	2,657,080	75,076,442	83,255,947
Transfers	20,170	20,170	(20,170)	(20,170)	-	-
Position	\$1,074,516	\$4,009,268	\$ 361,815	\$ 365,041	\$1,436,331	\$4,374,309

SANTEE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2017

Governmental Activities

As reported in the *Statement of Activities* on page 15, the cost of all of our governmental activities this year was \$72,187,983. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$18,359,675 because the cost was paid by those who benefited from the programs (\$124,699) or by other governments and organizations who subsidized certain programs with grants and contributions (\$10,552,456). We paid for the remaining "public benefit" portion of our governmental activities with (\$44,205,499) in State funds and other revenues, like interest and general entitlements.

In Table 3, we have presented the cost of all our governmental activities by function: instruction, instruction-related services, pupil services, administration, plant services, community services, enterprises, and other outgo, as well as each program's *net* cost (total cost less revenues generated by the activities). As discussed above, net cost shows the financial burden that was placed on the District's taxpayers by each of these functions.

Table 3

	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Instruction	\$ 43,815,282	\$ 42,859,263	\$ 36,626,328	\$ 37,013,938
Instruction-related services	6,386,900	6,075,768	6,004,740	5,682,774
Pupil services	7,001,296	6,224,250	4,646,153	3,449,467
Administration	4,687,111	4,353,557	4,265,665	3,977,726
Plant services	6,001,278	5,875,195	5,887,464	5,739,313
Community services	265,766	292,125	185,002	251,675
Enterprises	69,298	60,617	61,670	60,117
Other	3,961,052	14,858,092	3,833,806	14,819,031
Total	<u>\$ 72,187,983</u>	<u>\$ 80,598,867</u>	<u>\$ 61,510,828</u>	<u>\$ 70,994,041</u>

SANTEE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2017

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$33,220,413, which is an increase of \$1,719,184 from last year (Table 4).

Table 4

	Balances and Activity			
	July 1, 2016	Revenues	Expenditures	June 30, 2017
General Fund	\$ 16,534,423	\$ 65,830,949	\$ 64,717,320	\$ 17,648,052
Deferred Maintenance Fund	336,998	540,370	781,729	95,639
Capital Facilities	3,759,550	1,160,809	1,360,494	3,559,865
Special Reserve Fund for Capital Outlay Projects	3,057,600	1,948,525	1,036,303	3,969,822
Debt Service Fund for Blended Component Units	5,258,647	1,458,032	1,546,826	5,169,853
Non-Major Governmental Funds	2,554,011	5,496,725	5,273,554	2,777,182
Total	\$ 31,501,229	\$ 76,435,410	\$ 74,716,226	\$ 33,220,413

The primary reason for the increase is:

- A. \$1.4 million in one-time mandated cost block grant funds received.
- B. Deferral of \$843,000 for textbook adoption purchases planned for 2016-2017 into 2017-2018.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2017, the District had \$126,753,930 in a broad range of capital assets (net of depreciation), including land, construction, buildings, and furniture and equipment. This amount represents a net increase (including additions, deductions, and depreciation) of \$401,920, or 0.3 percent, from last year (Table 5). We present more detailed information about our capital assets in Note 5 to the financial statements.

Table 5

SANTEE SCHOOL DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

	Governmental Activities	
	2017	2016
Land	\$ 8,547,242	\$ 8,547,242
Construction in progress	15,850,327	12,776,408
Buildings and improvements	100,034,520	103,176,809
Furniture and equipment	2,321,841	1,851,551
Total	\$ 126,753,930	\$ 126,352,010

Long-Term Obligations

Long-term obligations include general obligation bonds, certificates of participation, capital lease, accumulated vacation, postemployment benefits, and the Qualified Zone Academy Bond (QZAB). We present more detailed information regarding our long-term obligations in Note 9 of the financial statements.

Table 6

	Governmental Activities		Business-Type Activities		Totals	
	2017	2016	2017	2016	2017	2016
General obligation bonds (financed with property taxes)	\$ 61,136,155	\$ 60,427,427	\$ -	\$ -	\$ 61,136,155	\$ 60,427,427
Premium on issuance	2,248,915	2,369,921	-	-	2,248,915	2,369,921
Certificates of participation	26,051,548	26,412,591	-	-	26,051,548	26,412,591
Premium on issuance	701,792	728,784	-	-	701,792	728,784
Accumulated vacation - net	238,200	251,095	-	-	238,200	251,095
Capital lease	317,012	-	-	-	317,012	-
Qualified Zone Academy Bond	5,000,000	5,000,000	-	-	5,000,000	5,000,000
OPEB obligation, net	2,968,014	2,461,652	209,028	153,529	3,177,042	2,615,181
Total	\$ 98,661,636	\$ 97,651,470	\$ 209,028	\$ 153,529	\$ 98,870,664	\$ 97,804,999

Net Pension Liability (NPL)

As of June 30, 2017, the District's net pension liability is \$60,219,108. This liability is included in the District's financial statements in accordance with Governmental Accounting Standards Board (GASB) Statement No. 68. The District also includes the projected increased cost for funding required contributions to the State Teachers Retirement System (STRS) and Public Employees Retirement System (PERS) in its General Fund multi-year planning.

SANTEE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2017

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 Karl Christensen, Assistant Superintendent, Business Services, at Santee School District, 9625 Cuyamaca Street, Santee, California, 92071, or e-mail at karl.christensen@santeesd.net.

SANTEE SCHOOL DISTRICT

**STATEMENT OF NET POSITION
FOR THE YEAR ENDED JUNE 30, 2017**

	Governmental	Business-Type	
	Activities	Activities	Total
ASSETS			
Deposits and investments	\$ 33,198,440	\$ 1,659,389	\$ 34,857,829
Receivables	2,039,399	41,707	2,081,106
Internal balances	251,525	(251,525)	-
Prepaid expenditures	375,869	-	375,869
Stores inventories	130,867	-	130,867
Capital assets			
Land and construction in progress	24,397,569	-	24,397,569
Other capital assets	141,611,646	-	141,611,646
Less: accumulated depreciation	(39,255,285)	-	(39,255,285)
Total Capital Assets	<u>126,753,930</u>	<u>-</u>	<u>126,753,930</u>
TOTAL ASSETS	<u>162,750,030</u>	<u>1,449,571</u>	<u>164,199,601</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding	15,337,205	-	15,337,205
Deferred outflows of resources related to pensions	13,399,012	867,119	14,266,131
Total Deferred Outflows of Resources	<u>28,736,217</u>	<u>867,119</u>	<u>29,603,336</u>
LIABILITIES			
Accounts payable	2,625,550	66,703	2,692,253
Accrued Interest payable	739,528	-	739,528
Unearned revenue	150,137	-	150,137
Long-term obligations:			
Current portion of long-term obligations other than pensions	1,897,627	-	1,897,627
Noncurrent portion of long-term obligations other than pensions	96,764,009	209,028	96,973,037
Total Long-Term Obligations	<u>98,661,636</u>	<u>209,028</u>	<u>98,870,664</u>
Aggregate net pension liability	57,884,854	2,334,254	60,219,108
TOTAL LIABILITIES	<u>160,061,705</u>	<u>2,609,985</u>	<u>162,671,690</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources related to pensions	2,508,665	72,792	2,581,457
NET POSITION			
Net investment in capital assets	53,503,442	-	53,503,442
Restricted for:			
Debt service	6,613,127	-	6,613,127
Capital projects	3,559,865	-	3,559,865
Educational programs	390,515	-	390,515
Other activities	534,645	-	534,645
Unrestricted (Deficit)	(35,685,717)	(366,087)	(36,051,804)
TOTAL NET POSITION	<u>\$ 28,915,877</u>	<u>\$ (366,087)</u>	<u>\$ 28,549,790</u>

SANTEE SCHOOL DISTRICT

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
Instruction	\$ 43,815,282	\$ 7,962	\$ 7,180,985	\$ 7
Instruction-related activities:				
Supervision of instruction	851,923	-	156,578	-
Instructional library, media, and technology	1,824,440	1,316	27,562	-
School site administration	3,710,537	-	196,704	-
Pupil services:				
Home-to-school transportation	1,166,440	-	5,540	-
Food services	2,874,025	-	1,643,135	-
All other pupil services	2,960,831	-	706,468	-
General administration:				
Data processing	1,182,933	-	-	-
All other general administration	3,504,178	33,296	388,150	-
Plant services	6,001,278	33,642	80,172	-
Community services	265,766	24,501	56,263	-
Enterprise services	69,298	-	7,628	-
Interest on long-term obligations	3,839,073	-	-	-
Other outgo	121,979	23,982	103,264	-
Total Governmental Activities	72,187,983	124,699	10,552,449	7
Business-Type Activities				
Project Safe and YALE Enterprise	2,888,459	-	859,655	-
Total School District	\$ 75,076,442	\$ 124,699	\$ 11,412,104	\$ 7

General revenues and subventions:

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

Excess of Revenues Over Expenses

- Transfers between funds

Change in Net Position

- Net Position - Beginning**
- Net Position - Ending**

**Net (Expenses) Revenues and
Changes in Net Position**

Governmental Activities	Business-Type Activities	Total
\$ (36,626,328)	\$ -	\$ (36,626,328)
(695,345)	-	(695,345)
(1,795,562)	-	(1,795,562)
(3,513,833)	-	(3,513,833)
(1,160,900)	-	(1,160,900)
(1,230,890)	-	(1,230,890)
(2,254,363)	-	(2,254,363)
(1,182,933)	-	(1,182,933)
(3,082,732)	-	(3,082,732)
(5,887,464)	-	(5,887,464)
(185,002)	-	(185,002)
(61,670)	-	(61,670)
(3,839,073)	-	(3,839,073)
5,267	-	5,267
<u>(61,510,828)</u>	<u>-</u>	<u>(61,510,828)</u>
-	(2,028,804)	(2,028,804)
<u>(61,510,828)</u>	<u>(2,028,804)</u>	<u>(63,539,632)</u>
15,427,277	-	15,427,277
2,564,230	-	2,564,230
368,168	-	368,168
39,697,667	946	39,698,613
188,532	13,247	201,779
<u>4,319,300</u>	<u>2,396,596</u>	<u>6,715,896</u>
<u>62,565,174</u>	<u>2,410,789</u>	<u>64,975,963</u>
1,054,346	381,985	1,436,331
20,170	(20,170)	-
<u>1,074,516</u>	<u>361,815</u>	<u>1,436,331</u>
<u>27,841,361</u>	<u>(727,902)</u>	<u>27,113,459</u>
<u>\$ 28,915,877</u>	<u>\$ (366,087)</u>	<u>\$ 28,549,790</u>

SANTEE SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2017**

	<u>General Fund</u>	<u>Deferred Maintenance Fund</u>	<u>Capital Facilities Fund</u>	<u>Fund for Capital Outlay Projects</u>	<u>Debt Service Fund for Blended Component Units</u>
ASSETS					
Deposits and investments	\$ 17,453,019	\$ 462,476	\$ 3,393,294	\$ 4,036,136	\$ 5,169,853
Receivables	1,670,426	1,647	9,183	12,429	-
Due from other funds	503,472	-	266,629	-	-
Prepaid expenditures	375,869	-	-	-	-
Stores inventories	71,132	-	-	-	-
Total Assets	<u>\$ 20,073,918</u>	<u>\$ 464,123</u>	<u>\$ 3,669,106</u>	<u>\$ 4,048,565</u>	<u>\$ 5,169,853</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 2,263,641	\$ 55,819	\$ 109,241	\$ 78,743	\$ -
Due to other funds	12,088	312,665	-	-	-
Unearned revenue	150,137	-	-	-	-
Total Liabilities	<u>2,425,866</u>	<u>368,484</u>	<u>109,241</u>	<u>78,743</u>	<u>-</u>
Fund Balances:					
Nonspendable	467,001	-	-	-	-
Restricted	390,515	-	3,559,865	-	5,169,853
Committed	-	95,639	-	-	-
Assigned	1,823,947	-	-	3,969,822	-
Unassigned	14,966,589	-	-	-	-
Total Fund Balances	<u>17,648,052</u>	<u>95,639</u>	<u>3,559,865</u>	<u>3,969,822</u>	<u>5,169,853</u>
Total Liabilities and Fund Balances	<u>\$ 20,073,918</u>	<u>\$ 464,123</u>	<u>\$ 3,669,106</u>	<u>\$ 4,048,565</u>	<u>\$ 5,169,853</u>

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

Non-Major Governmental Funds	Total Governmental Funds
\$ 2,683,662	\$ 33,198,440
345,714	2,039,399
137	770,238
-	375,869
59,735	130,867
\$ 3,089,248	\$ 36,514,813

\$ 118,106	\$ 2,625,550
193,960	518,713
-	150,137
312,066	3,294,400

59,735	526,736
2,717,447	11,837,680
-	95,639
-	5,793,769
-	14,966,589
2,777,182	33,220,413
\$ 3,089,248	\$ 36,514,813

SANTEE SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2017**

Total Fund Balance - Governmental Funds **\$ 33,220,413**

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

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

The cost of capital assets is the following	\$ 166,009,215	
Accumulated depreciation is the following	<u>(39,255,285)</u>	
Net Capital Assets		126,753,930

Expenditures relating to issuance of debt of next fiscal year were recognized on the modified accrual basis, but are not recognized on the accrual basis.	15,337,205
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Expenditures relating to contributions made to pension plans were recognized on the modified accrual basis, but are not recognized on the accrual basis.	4,967,819
--	-----------

In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. On the government-wide financial statements, unmatured interest on long-term obligations is recognized when it is incurred.	(739,528)
--	-----------

The net change in proportionate share of net pension liability as of the measurement date is not recognized as an expenditure under the modified accrual basis, but is recognized on the accrual basis over the expected remaining service life of members receiving pension benefits.	1,284,622
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The difference between projected and actual earnings on pension plan investments are not recognized on the modified accrual basis, but are recognized on the accrual basis as an adjustment to pension expense.	5,571,290
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The differences between expected and actual experience in the measurement of the total pension liability are not recognized on the modified accrual basis, but are recognized on the accrual basis over the expected average remaining service life of members receiving pension benefits.	(548,458)
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The changes of assumptions is not recognized as an expenditure under the modified accrual basis, but is recognized on the accrual basis over the expected average remaining service life of members receiving pension benefits.	(384,926)
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Net pension liability is not due and payable in the current period, and is not reported as a liability in the funds.	(57,884,854)
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The accompanying notes are an integral part of these financial statements.

SANTEE SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION (CONTINUED)
JUNE 30, 2017**

Long-term obligations at year-end consist of:

General obligation bonds	\$ 54,860,125
Premium on issuance, net of amortization	2,248,915
Certificates of participation (COP)	25,459,849
Premium on issuance, net of amortization	701,792
Accumulated vacation	238,200
Capital lease	317,012
Qualified Zone Academy Bond (QZAB)	5,000,000
Other Postemployment Benefits (OPEB)	2,968,014

In addition, the District previously issued "capital appreciation" general obligation bonds and certificate of participation. The cumulative capital accretion on the general obligation bonds and certificate of participation is:

6,867,729

Total Long-Term Obligations

\$ (98,661,636)

Total Net Position - Governmental Activities

\$ 28,915,877

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

SANTEE SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2017**

	General Fund	Deferred Maintenance Fund	Capital Facilities Fund	Special Reserve Fund for Capital Outlay Projects
REVENUES				
Local Control Funding Formula	\$ 51,891,986	\$ 535,000	\$ -	\$ -
Federal sources	2,305,223	-	-	-
Other State sources	5,872,502	-	-	-
Other local sources	5,738,967	5,370	1,105,383	87,108
Total Revenues	65,808,678	540,370	1,105,383	87,108
EXPENDITURES				
Current				
Instruction	42,134,934	-	-	-
Instruction-related activities:				
Supervision of instruction	813,658	-	-	-
Instructional library, media, and technology	1,237,695	-	-	-
School site administration	3,513,172	-	-	-
Pupil services:				
Home-to-school transportation	1,072,652	-	-	-
Food services	-	-	-	-
All other pupil services	2,873,711	-	-	-
Administration:				
Data processing	957,191	-	-	-
All other administration	3,206,545	-	8,034	-
Plant services	5,087,604	195,838	-	75,591
Facility acquisition and construction	1,005,163	585,891	1,035,988	723,903
Community services	258,390	-	-	-
Other outgo	-	-	-	-
Enterprise services	7,628	-	-	-
Debt service				
Principal	-	-	-	-
Interest and other	-	-	-	-
Total Expenditures	62,168,343	781,729	1,044,022	799,494
Excess (Deficiency) of Revenues Over (Under) Expenditures	3,640,335	(241,359)	61,361	(712,386)
Other Financing Sources (Uses)				
Transfers in	22,271	-	55,426	1,544,405
Other sources	-	-	-	317,012
Transfers out	(2,500,079)	-	(316,472)	(236,809)
Other uses	(48,898)	-	-	-
Net Financing Sources (Uses)	(2,526,706)	-	(261,046)	1,624,608
NET CHANGE IN FUND BALANCES	1,113,629	(241,359)	(199,685)	912,222
Fund Balances - Beginning	16,534,423	336,998	3,759,550	3,057,600
Fund Balances - Ending	\$ 17,648,052	\$ 95,639	\$ 3,559,865	\$ 3,969,822

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

Debt Service Fund for Blended Component Units	Non-Major Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 52,426,986
-	1,855,136	4,160,359
-	395,277	6,267,779
4,503	3,246,312	10,187,643
<u>4,503</u>	<u>5,496,725</u>	<u>73,042,767</u>
-	206,111	42,341,045
-	23,939	837,597
-	1,247	1,238,942
-	-	3,513,172
-	-	1,072,652
-	2,610,687	2,610,687
-	-	2,873,711
-	-	957,191
-	130,415	3,344,994
-	55,854	5,414,887
-	7	3,350,952
-	-	258,390
73,081	-	73,081
-	-	7,628
445,000	1,020,000	1,465,000
1,028,745	1,223,193	2,251,938
<u>1,546,826</u>	<u>5,271,453</u>	<u>71,611,867</u>
<u>(1,542,323)</u>	<u>225,272</u>	<u>1,430,900</u>
1,453,529	-	3,075,631
-	-	317,012
-	(2,101)	(3,055,461)
-	-	(48,898)
<u>1,453,529</u>	<u>(2,101)</u>	<u>288,284</u>
(88,794)	223,171	1,719,184
5,258,647	2,554,011	31,501,229
<u>\$ 5,169,853</u>	<u>\$ 2,777,182</u>	<u>\$ 33,220,413</u>

SANTEE 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, 2017

Total Net Change in Fund Balances - Governmental Funds **\$ 1,719,184**
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:

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

This is the amount by which capital outlay exceeds depreciation in the period:

Capital Outlay	\$ 3,906,566	
Depreciation expense	<u>(3,504,646)</u>	
Net Expense Adjustment		401,920

Some of the capital assets acquired this year were financed with capital leases. The amount financed by the leases is reported in the governmental funds as a source of financing. On the other hand, the capital leases are not revenues in the statement of activities, but rather constitute long-term liabilities in the statement of net assets. (317,012)

In the Statement of Activities, certain operating expenses, such as compensated absences (vacations) is measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). Vacation used was more than the amounts earned by \$12,895 12,895

In the governmental funds, pension costs are based on employer contributions made to pension plans during the year. However, in the Statement of Activities, pension expense is the net effect of all changes in the deferred outflows, deferred inflows and net pension liability during the year. (113,974)

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

General obligation bonds	1,020,000
Certificates of participation	445,000

In the governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide financial statements, issue costs are amortized over the life of the debt. The issue costs amortized for the period were:

Amortization of debt premium	147,998	
Deferred amount on refunding	<u>(586,114)</u>	
Combined adjustment		(438,116)

SANTEE SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES (Continued) FOR THE YEAR ENDED JUNE 30, 2017

In the governmental funds, interest is recorded as an expenditure in the funds when it becomes due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the Statement of Activities is the result of two factors. First, accrued interest on the general obligation bonds and certificates of participation decreased by \$663,666, and second, General obligation bonds and certificates of participation reported an additional \$1,812,685 of accreted interest in the current fiscal year.

(1,149,019)

In the Statement of Activities, Other Postemployment Benefits (OPEB) obligations are measured by an actuarially determined Annual Required Contribution (ARC). In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, amounts contributed toward the OPEB obligation were less than the ARC by \$506,362.

(506,362)

Change in Net Position of Governmental Activities

\$ 1,074,516

SANTEE SCHOOL DISTRICT

**PROPRIETARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2017**

	Business-Type Activities
	Enterprise Fund
ASSETS	
Current Assets	
Deposits and investments	\$ 1,659,389
Receivables	41,707
Due from other funds	11,951
Total Assets	<u>1,713,047</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources related to pensions	<u>867,119</u>
LIABILITIES	
Current Liabilities	
Accounts payable	66,703
Due to other funds	263,476
Total Current Liabilities	<u>330,179</u>
Noncurrent Liabilities	
Net OPEB Obligation	209,028
Aggregate net pension liability	2,334,254
Total Noncurrent Liabilities	<u>2,543,282</u>
Total Liabilities	<u>2,873,461</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to pensions	<u>72,792</u>
NET POSITION	
Unrestricted (Deficit)	(366,087)
Total Net Position	<u>\$ (366,087)</u>

SANTEE SCHOOL DISTRICT

**PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
NET POSITION
FOR THE YEAR ENDED JUNE 30, 2017**

	Business-Type Activities
	Enterprise Fund
OPERATING REVENUES	
Local and intermediate sources	\$ 3,257,197
Total Operating Revenues	<u>3,257,197</u>
OPERATING EXPENSES	
Payroll costs	2,420,115
Supplies and materials	155,493
Facility rental	33,862
Other operating cost	278,989
Total Operating Expenses	<u>2,888,459</u>
Operating Income	<u>368,738</u>
NONOPERATING REVENUES	
Interest income	13,247
Total Nonoperating Revenues	<u>13,247</u>
Income Before Transfers	<u>381,985</u>
Transfers out	<u>(20,170)</u>
Change in Net Position	361,815
Total Net Position - Beginning	<u>(727,902)</u>
Total Net Position - Ending	<u>\$ (366,087)</u>

SANTEE SCHOOL DISTRICT

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017**

	Business-Type Activities
	<u>Enterprise Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from user charges	\$ 3,362,842
Cash payments to employees for services	(2,477,306)
Cash payments to suppliers for goods and services	(155,493)
Cash payments for facility use	(33,862)
Cash payments for other operating expenses	(246,348)
Net Cash Provided by Operating Activities	<u>449,833</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Transfers out to other funds	<u>(20,170)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	<u>13,247</u>
Net Increase in Cash and Cash Equivalents	442,910
Cash and Cash Equivalents - Beginning	1,216,479
Cash and Cash Equivalents - Ending	<u>\$ 1,659,389</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ 368,738
Changes in assets and liabilities:	
Receivables	(7,713)
Due from other fund	(11,951)
Deferred outflows of resources related to pensions	(295,405)
Accounts payable	32,641
Due to other fund	125,309
Net OPEB Obligation	55,499
Aggregate net pension liability	559,932
Deferred inflows of resources related to pensions	(377,217)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 449,833</u>

SANTEE SCHOOL DISTRICT

**FIDUCIARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2017**

	<u>Agency Funds</u>
ASSETS	
Deposits and investments	<u>\$ 19,098</u>
LIABILITIES	
Due to student groups	<u>\$ 19,098</u>

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

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Santee School District (the District) was organized in 1893, under the laws of the State of California. The District operates under a locally elected five-member Board form of government and provides educational services to grades K-8 as mandated by the State and/or Federal agencies. The District operates one K-6 elementary school, eight K-8 elementary schools, and an alternative school program.

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

Basis of Presentation - Fund Accounting

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

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

Major Governmental Funds

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

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

As a result, the General Fund reflects an increase in fund balance of \$2,931,835.

Deferred Maintenance Fund The Deferred Maintenance Fund is used to account separately for revenues that are restricted or committed for deferred maintenance purposes. (*Education Code* Section 17582).

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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

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

Debt Service Fund for Blended Component Units The Debt Service Fund for Blended Component Units is used for the repayment of certificates of participation and qualified zone academy bonds issued by the District.

Non-Major Governmental Funds

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

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

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

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

County School Facilities Fund The County School Facilities Fund is established pursuant to *Education Code* Section 17070.43 to receive apportionments from the 1998 State School Facilities Fund (Proposition 1A), the 2002 State School Facilities Fund (Proposition 47), or the 2004 State School Facilities Fund (Proposition 55) 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.).

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

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

Proprietary Funds Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows. The District applies all GASB pronouncements, as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

pronouncements conflict with or contradict GASB pronouncements. Proprietary funds are classified as enterprise or internal service. The District has no internal service funds and the following enterprise fund:

Enterprise Fund Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The only enterprise fund of the District accounts for the financial transactions related to the Project SAFE and YALE Programs of the District.

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

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

Basis of Accounting - Measurement Focus

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

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

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

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

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

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

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

Revenues – Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter, to be used to pay liabilities of the current fiscal year. Generally, available is defined as collectible within 60 days. However to achieve comparability of reporting among California District's 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 District's as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

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

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

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

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

Cash and Cash Equivalents

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

Investments

Investments held at June 30, 2017, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in the County investment pool are determined by the program sponsor.

Prepaid Expenditures

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

Stores Inventories

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

Capital Assets and Depreciation

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

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

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

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

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables".

Compensated Absences

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

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

Accrued Liabilities and Long-Term Obligations

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

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

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Debt Issuance Costs, Premiums, and Discounts

In the government-wide financial statements and in the proprietary fund type financial statements, long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net position. Debt premiums and discounts, as well as issuance costs, related to prepaid insurance costs are amortized over the life of the bonds using the straight-line method.

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

Deferred Outflows/Inflows of Resources

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

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

Pensions

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

Fund Balances - Governmental Funds

As of June 30, 2017, fund balances of the governmental funds are classified as follows:

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

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

Committed - amounts that can be used only for specific purposes determined by a formal action of the governing board. The governing board is the highest level of decision-making authority for the District. Commitments may

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be established, modified, or rescinded only through resolutions or other action as approved by the governing board.

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

Unassigned - all other spendable amounts.

Spending Order Policy

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

Minimum Fund Balance Policy

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

Net Position

Net position represents the difference between assets and liabilities. Net position net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. The government-wide financial statements report \$11,098,152 of restricted net position.

Operating Revenues and Expenses

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

Interfund Activity

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

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

Estimates

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

Budgetary Data

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

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

Property Tax

Secured property taxes attach as an enforceable lien on property as of March 1. Taxes are payable in two installments on November 15 and March 15. Unsecured property taxes are payable in one installment on or before August 31. The County of San Diego bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

Change in Accounting Principles

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

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

The District has implemented the provisions of this Statement as of June 30, 2017.

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

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

The District has implemented the provisions of this Statement as of June 30, 2017.

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

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

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

The District has implemented the provisions of this Statement as of June 30, 2017.

In January 2016, the GASB issued Statement No. 80, *Blending Requirements for Certain Component Units - amendment of GASB Statement No. 14*. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended*. The additional criterion requires blending of a component unit incorporated as a not-for-profit

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corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*.

The District has implemented the provisions of this Statement as of June 30, 2017.

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

The District has implemented the provisions of this Statement as of June 30, 2017, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

New Accounting Pronouncements

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

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

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

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

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

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

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement.

This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Early implementation is encouraged.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Early implementation is encouraged.

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement 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

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measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). Specifically, this Statement addresses the following topics:

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation;
- Reporting amounts previously reported as goodwill and "negative" goodwill;
- Classifying real estate held by insurance entities;
- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost;
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus;
- Recognizing on-behalf payments for pensions or OPEB in employer financial statements;
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB;
- Classifying employer-paid member contributions for OPEB;
- Simplifying certain aspects of the alternative measurement method for OPEB;
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

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

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

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

In June 2017, the GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

The requirements of this Statement are effective for the reporting periods beginning after December 15, 2019. Early implementation is encouraged.

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2017, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 33,198,440
Business-type activities	1,659,389
Fiduciary funds	19,098
Total Deposits and Investments	<u>\$ 34,876,927</u>

Deposits and investments as of June 30, 2017, consisted of the following:

Cash on hand and in banks	\$ 405,098
Cash in revolving	20,000
Investments	34,451,829
Total Deposits and Investments	<u>\$ 34,876,927</u>

Policies and Practices

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

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

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

General Authorizations

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

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District manages its exposure to interest rate risk by investing in the San Diego County Treasury Investment Pool.

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

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

Investment Type	Fair Value	Maturity Date
U.S. Treasuries	\$ 4,726,080	11/15/2020
Certificates of Deposit	431,467	2/20/2018
Money Market Mutual Funds	12,305	N/A
San Diego County Treasury Investment Pool	29,182,735	417*
Total	\$ 34,352,587	

*Weighted average days to maturity.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investment in the San Diego County Investment Pool has been rated AA Af/S1 by Standard and Poor's Investor Services as of June 30, 2017. The District's investment in the Money Market Mutual Funds has been rated Aaa-mf by Moody's Investor Services as of June 30, 2017. The investment in U.S. Treasuries and Certificates of Deposits are not required to be rated, nor have they been rated as of June 30, 2017.

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2017, the District's bank balance was not exposed to custodial credit risk.

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

NOTE 3 - FAIR VALUE MEASUREMENTS

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

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

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

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

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

The District's fair value measurements are as follows at June 30, 2017:

Investment Type	Fair Value	Level 1 Inputs	Level 2 Inputs	Uncategorized
U.S. Treasuries	\$ 4,726,080	\$ 4,726,080	\$ -	\$ -
Certificates of Deposit	431,467	-	431,467	-
Money Market Mutual Funds	12,305	-	12,305	-
San Diego County Treasury Investment Pool	29,182,735	-	-	29,182,735
Total	<u>\$ 34,352,587</u>	<u>\$ 4,726,080</u>	<u>\$ 443,772</u>	<u>\$ 29,182,735</u>

SANTEE SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 4 - RECEIVABLES

Receivables at June 30, 2017, consisted of intergovernmental grants, entitlements, interest, and other local sources. All receivables are considered collectible in full.

	General Fund	Deferred Maintenance Fund	Capital Facilities Fund	Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total Governmental Activities	Enterprise Fund
Federal Government							
Categorical aid	\$ 648,904	\$ -	\$ -	\$ -	\$ 281,269	\$ 930,173	\$ -
State Government							
Lottery	582,014	-	-	-	-	582,014	-
Other state	98,406				61,680	160,086	-
Local Government							
Interest	52,666	1,647	9,183	12,429	1,057	76,982	4,674
Other local sources	288,436	-	-	-	1,708	290,144	37,033
Total	<u>\$ 1,670,426</u>	<u>\$ 1,647</u>	<u>\$ 9,183</u>	<u>\$ 12,429</u>	<u>\$ 345,714</u>	<u>\$ 2,039,399</u>	<u>\$ 41,707</u>

SANTEE SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2017, was as follows:

	Balance July 1, 2016	Additions	Deductions	Balance June 30, 2017
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 8,547,242	\$ -	\$ -	\$ 8,547,242
Construction in progress	12,776,408	3,158,389	84,470	15,850,327
Total Capital Assets Not Being Depreciated	21,323,650	3,158,389	84,470	24,397,569
Capital Assets Being Depreciated				
Land improvements	4,352,409	-	-	4,352,409
Buildings and improvements	128,779,648	-	-	128,779,648
Furniture and equipment	7,646,942	832,647	-	8,479,589
Total Capital Assets Being Depreciated	140,778,999	832,647	-	141,611,646
Total Capital Assets	162,102,649	3,991,036	84,470	166,009,215
Less Accumulated Depreciation				
Land improvements	2,969,920	120,784	-	3,090,704
Buildings and improvements	26,985,328	3,021,505	-	30,006,833
Furniture and equipment	5,795,391	362,357	-	6,157,748
Total Accumulated Depreciation Governmental Activities	35,750,639	3,504,646	-	39,255,285
Capital Assets, Net	\$ 126,352,010	\$ 486,390	\$ 84,470	\$ 126,753,930

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

SANTEE SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

Governmental Activities

Instruction	\$ 977,789
Instructional library, media, and technology	567,191
School site administration	136,933
Home-to-school transportation	81,056
Food services	245,967
All other pupil services	55,740
All other administration	110,793
Data processing	221,314
Plant services	<u>1,107,863</u>
Total Depreciation Expenses Governmental Activities	<u>\$ 3,504,646</u>

NOTE 6 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund receivable and payable balances at June 30, 2017, between major and non-major governmental funds and non-major enterprise funds are as follows:

SANTEE SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

Due To	Due From				Total
	General Fund	Deferred Maintenance Fund	Non-Major Governmental Funds	Enterprise Fund	
General Fund	\$ -	\$ 46,043	\$ 193,953	\$ 263,476	\$ 503,472
Capital Facilities Fund	-	266,622	7	-	266,629
Non-Major Governmental Funds	137	-	-	-	137
Enterprise Fund	11,951	-	-	-	11,951
Total	<u>\$ 12,088</u>	<u>\$ 312,665</u>	<u>\$ 193,960</u>	<u>\$ 263,476</u>	<u>\$ 782,189</u>

A balance of \$120 is due to the Child Development Non-Major Governmental Fund from the General Fund for miscellaneous expenses.

A balance of \$17 is due to the Cafeteria Non-Major Governmental Fund from the General Fund for an outstanding invoice for food services.

The balance of \$11,951 is due to the Enterprise Fund from the General Fund for salary adjustment.

The balance of \$46,043 is due to the General Fund from the Deferred Maintenance for other postemployment benefits and HVAC expenses.

The balance of \$266,622 is due to the Capital Facilities Fund from the Deferred Maintenance Fund HVAC expenses.

A balance of \$58,711 is due to the General Fund from the Child Development Non-Major Governmental Fund for other postemployment benefits, and miscellaneous expenses.

A balance of \$135,242 is due to the General Fund from the Cafeteria Non-Major Governmental Fund for indirect costs, other postemployment benefits, and miscellaneous expenses.

The balance of \$7 is due to the Capital Facilities Fund from the County School Facilities Non-Major Governmental Funds for miscellaneous expenses.

The balance of \$263,476 is due to the General Fund from the Enterprise Fund for indirect costs, other postemployment benefits, annual lease payments, and miscellaneous expenses.

SANTEE SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

Operating Transfers

Interfund transfers for the year ended June 30, 2017, consisted of the following:

Transfer To	Transfer From					Total
	General Fund	Capital Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Enterprise Funds	
General Fund	\$ -	\$ -	\$ -	\$ 2,101	\$ 20,170	\$ 22,271
Debt Service Fund for Blended Component Units	900,248	316,472	236,809	-	-	1,453,529
Capital Facilities Fund	55,426	-	-	-	-	55,426
Special Reserve Fund for Capital Outlay Projects	1,544,405	-	-	-	-	1,544,405
Non-Major Governmental Funds	-	-	-	-	-	-
Total	\$ 2,500,079	\$ 316,472	\$ 236,809	\$ 2,101	\$ 20,170	\$ 3,075,631

The Cafeteria Non-Major Governmental Fund transferred to the General Fund to refund funds paid for overdue meals.	\$ 2,101
The Enterprise Fund transferred to the General Fund for Capital Outlay Projects to pay annual lease payment of portable buildings.	20,170
The General Fund transferred to the Capital Facilities Fund for HVAC expenses.	55,426
The General Fund transferred to the Special Reserve Fund for Capital Outlay Projects for technology, bus, and facilities needs reserves.	1,544,405
The General Fund transferred to the Debt Service Fund for Blended Component Units for debt service payments.	900,248
The Capital Facilities Fund transferred to the Debt Service Fund for Blended Component Units for debt service payments.	316,472
The Special Reserve Fund for Capital Outlay Projects transferred to the Debt Service Fund for Blended Component Units for debt service payments.	236,809
Total	\$ 3,075,631

SANTEE SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 7 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2017, consisted of the following:

	General Fund	Deferred Maintenance Fund	Capital Facilities Fund	Special Reserve		Total Governmental Activities	Enterprise Fund
				Fund for Capital Outlay Projects	Non-Major Governmental Funds		
Vendor payables	\$ 1,161,975	\$ 55,819	\$ 109,241	\$ 78,743	\$ 107,572	\$ 1,513,350	\$ 5,539
State apportionment	431,752	-	-	-	-	431,752	-
Salaries and benefits	669,914	-	-	-	10,534	680,448	61,164
Total	<u>\$ 2,263,641</u>	<u>\$ 55,819</u>	<u>\$ 109,241</u>	<u>\$ 78,743</u>	<u>\$ 118,106</u>	<u>\$ 2,625,550</u>	<u>\$ 66,703</u>

NOTE 8 - UNEARNED REVENUE

Unearned revenue at June 30, 2017, consisted of the following:

	General Fund
Federal financial assistance	\$ 21,252
Other local assistance	128,885
Total	<u>\$ 150,137</u>

SANTEE SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 9 - LONG-TERM OBLIGATIONS

Summary

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

	Balance July 1, 2016	Additions	Deductions	Balance June 30, 2017	Due in One Year
Governmental Activities					
General Obligation Bonds	\$ 60,427,427	\$ 1,728,728	\$ 1,020,000	\$ 61,136,155	\$ 1,290,976
Premium on issuance	2,369,921	-	121,006	2,248,915	-
Certificates of participation	26,412,591	83,957	445,000	26,051,548	530,000
Premium on issuance	728,784	-	26,992	701,792	-
Accumulated vacation - net	251,095	-	12,895	238,200	-
Capital leases	-	317,012	-	317,012	76,651
Qualified Zone Academy					
Bond	5,000,000	-	-	5,000,000	-
OPEB Obligation, net	2,461,652	1,204,311	697,949	2,968,014	-
	<u>\$ 97,651,470</u>	<u>\$ 3,334,008</u>	<u>\$ 2,323,842</u>	<u>\$ 98,661,636</u>	<u>\$ 1,897,627</u>
Business-Type Activities					
Net OPEB Obligation	<u>\$ 153,529</u>	<u>\$ 131,996</u>	<u>\$ 76,497</u>	<u>\$ 209,028</u>	<u>\$ -</u>

- Payments on the General Obligation Bonds are made by the Bond Interest and Redemption Fund.
- Payments on the certificates of participation are made by the Debt Service Fund for Blended Component Units.
- Payments on the Qualified Zone Academy Bond are made by the Debt Service Fund for Blended Component
- Payments for accumulated vacation are typically liquidated in the fund for which the employee worked.
- Payments for the OPEB Obligation are made by the General Fund.
- Payments on the capital lease obligations are made in the Special Reserve Fund for Capital Outlay Projects

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds			Bonds	
				Outstanding July 1, 2016	Issued	Accretion	Redeemed	Outstanding June 30, 2017
April-07	August-17	3.50-5.00%	\$ 18,000,000	\$ 580,000	\$ -	\$ -	\$ 255,000	\$ 325,000
August-08	August-48	4.00-5.00%	12,385,077	11,889,876	-	52,872	190,000	11,752,748
August-08	August-33	3.01-5.90%	2,869,039	3,914,641	-	204,453	160,000	3,959,094
August-08	August-48	5.90-6.20%	7,840,155	5,887,053	-	377,159	-	6,264,212
May-11	May-51	6.90-8.10%	3,534,307	2,377,244	-	210,570	-	2,587,814
December-15	August-40	3.00-5.00%	26,715,104	26,753,591	-	456,774	415,000	26,795,365
February-16	August-45	4.71%	9,025,022	9,025,022	-	426,900	-	9,451,922
				<u>\$ 60,427,427</u>	<u>\$ -</u>	<u>\$ 1,728,728</u>	<u>\$ 1,020,000</u>	<u>\$ 61,136,155</u>

General Obligation Bonds

In November 2006, the qualified electorate of the Santee School District approved the issuance and sale of General Obligation Bonds of \$60,000,000. The first issuance of Current Interest Bonds Series A in the amount of \$18,000,000 occurred in April 2007. The proceeds were used to finance the addition and modernization of school facilities. Taxes are collected by the San Diego County Tax Assessor for payment of principal and interest. The bonds mature each August 1 through August 2017, with semi-annual interest payments due February 1 and August 1 each year, commencing February 1, 2008. At June 30, 2017, the principal balance outstanding was \$325,000.

In August 2008, the District issued \$1,145,077 of Capital Appreciation Bonds Series B and \$11,240,000 of Current Interest Bonds Series B. The proceeds were used to finance the addition and modernization of school facilities. Taxes are collected by the San Diego County Tax Assessor for payment of principal and interest. The bonds mature each August 1 through August 2048, with semi-annual interest payments due February 1 and August 1 each year, commencing February 1, 2009. At June 30, 2017, the principal balance outstanding was \$11,752,748.

In August 2008, the District issued \$2,869,039 of Capital Appreciation Bonds Series C. The proceeds were used to finance the addition and modernization of school facilities. Taxes are collected by the San Diego County Tax Assessor for payment of principal and interest. The bonds mature each August 1 through August 2033, with semi-annual interest payments due February 1 and August 1 each year, commencing February 1, 2009. At June 30, 2017, the principal balance outstanding was \$3,959,094.

In August 2008, the District issued \$7,840,155 of Capital Appreciation Bonds Series D. The proceeds were used to finance the addition and modernization of school facilities. Taxes are collected by the San Diego County Tax Assessor for payment of principal and interest. The bonds mature each August 1 through August 2048, with semi-annual interest payments due February 1 and August 1 each year, commencing February 1, 2009. At June 30, 2017, the principal balance outstanding was \$6,264,212.

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

In May 2011, the District issued \$3,534,307 of Capital Appreciation Bonds Series E. The proceeds were used to finance the addition and modernization of school facilities. Taxes are collected by the San Diego County Tax Assessor for payment of principal and interest. The bonds mature each August 1 through August 2046, with the final maturity payment being made on May 1, 2051. At June 30, 2017, the principal balance outstanding was \$2,587,814.

In December 2015, the District issued \$26,715,104 of General Obligation Bonds. The proceeds were used to refund portions of the Series A and Series D bonds to produce debt service savings for tax payers. Taxes are collected by the San Diego County Tax Assessor for payment of principal and interest. The bonds mature each August 1 through August 2040, with the final maturity payment being made on August 1, 2040. At June 30, 2017, the principal balance outstanding was \$26,795,365.

In February 2016, the District issued \$9,025,022 of General Obligation Refunding Capital Appreciation Bonds. The proceeds were used to refund portions of the Series A and Series D bonds to produce debt service savings for tax payers. Taxes are collected by the San Diego County Tax Assessor for payment of principal and interest. The bonds mature each August 1 through August 30, with the final maturity payment being made on August 1, 2045. At June 30, 2017, the principal balance outstanding was \$9,451,922.

Debt Service Requirements to Maturity

The bonds mature through 2051 as follows:

Fiscal Year	Principal Including Accreted Interest to Date	Accreted Interest	Current Interest to Maturity	Total
2018	\$ 1,270,507	\$ 20,469	\$ 1,192,368	\$ 2,483,344
2019	1,330,548	73,130	1,177,068	2,580,746
2020	1,406,516	107,167	1,155,393	2,669,076
2021	1,516,963	120,970	1,123,593	2,761,526
2022	1,612,207	161,152	1,083,073	2,856,432
2023-2027	9,791,513	1,459,620	4,650,671	15,901,804
2028-2032	13,379,198	3,151,125	3,155,213	19,685,536
2033-2037	9,610,262	13,500,060	1,868,750	24,979,072
2038-2042	10,413,220	19,684,133	1,365,000	31,462,353
2043-2047	8,070,620	17,670,818	721,375	26,462,813
2048-2051	2,734,601	12,716,571	69,625	15,520,797
Total	\$ 61,136,155	\$ 68,665,215	\$ 17,562,129	\$ 147,363,499

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

Certificates of Participation

The certificates of participation are as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Certificate of Participation Outstanding July 1, 2016	Issued	Accretion	Redeemed	Certificate of Participation Outstanding June 30, 2017
09/24/08	10/01/49	3.25-5.75%	\$ 23,699,849	\$ 1,752,591	\$ -	\$ 83,957	\$ 100,000	\$ 1,736,548
06/02/10	06/01/25	2.315-7.160%	2,260,000	1,420,000	-	-	145,000	1,275,000
12/22/15	10/01/42	3.00-5.00%	23,240,000	23,240,000	-	-	200,000	23,040,000
				<u>\$ 26,412,591</u>	<u>\$ -</u>	<u>\$ 83,957</u>	<u>\$ 445,000</u>	<u>\$ 26,051,548</u>

During September 2008, the District issued \$23,699,849 in certificates of participation for the purpose of financing the acquisition, construction, installation, modernization, and equipping of improvements to various District facilities. The District is required to make lease payments of principal and interest in conjunction with these certificates of participation. Interest rates range from 3.25 percent to 5.75 percent. Interest is due and payable semi-annually on April 1 and October 1, commencing on April 1, 2009. The outstanding principal balance at June 30, 2017, was \$1,736,548.

During June 2010, the District issued \$2,260,000 in certificates of participation for the purpose of constructing and installing certain solar energy improvements located at the District's Hill Creek Elementary School. The District is required to make lease payments of principal and interest in conjunction with these certificates of participation. Interest rates range from 2.315 percent to 7.160 percent. Interest is due and payable semi-annually on June 1 and December 1, commencing on December 1, 2010. Principal is payable annually on June 1, commencing on June 1, 2011. The outstanding principal balance at June 30, 2017, was \$1,275,000.

During December 2015, the District issued \$23,240,000 in certificates of participation for the purpose of financing the acquisition, construction, installation, modernization, and equipping of improvements to various District facilities. The District is required to make lease payments of principal and interest in conjunction with these certificates of participation. Interest rates range from 3.00 percent to 5.00 percent. Interest is due and payable semi-annually on April 1 and October 1, commencing on April 1, 2016. The outstanding principal balance at June 30, 2017, was \$23,040,000.

SANTEE SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

Payments are required as follows:

Fiscal Year	Principal Including Accreted Interest to Date	Accreted Interest	Current Interest to Maturity	Total
2018	\$ 530,000	\$ -	\$ 1,008,188	\$ 1,538,188
2019	570,000	-	982,291	1,552,291
2020	610,000	-	952,051	1,562,051
2021	650,000	-	918,598	1,568,598
2022	705,000	-	882,585	1,587,585
2023-2027	3,350,245	244,755	3,852,931	7,447,931
2028-2032	3,831,757	1,023,243	3,288,616	8,143,616
2033-2037	5,919,546	20,454	2,545,266	8,485,266
2038-2042	7,980,000	-	1,217,600	9,197,600
2043	1,905,000	-	38,100	1,943,100
Total	<u>\$ 26,051,548</u>	<u>\$ 1,288,452</u>	<u>\$ 15,686,226</u>	<u>\$ 43,026,226</u>

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2017, amounted to \$238,200

Capital Leases

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

	School Buses
Balance, July 1, 2016	\$ -
Additions	334,880
Payments	-
Balance, July 1, 2017	<u>\$ 334,880</u>

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2018	\$ 83,720
2019	83,720
2020	83,720
2021	83,720
Total	<u>334,880</u>
Less: Amount Representing Interest	(17,868)
Present Value of Minimum Lease Payments	<u>\$ 317,012</u>

Leased vehicles under capital leases in capital assets at June 30, 2017, include the following:

Vehicles	\$ 400,732
Less: Accumulated depreciation	<u>(50,091)</u>
Total	<u>\$ 350,641</u>

Qualified Zone Academy Bond

In November 2005, the District issued \$5,000,000 aggregate principal amount of Qualified Zone Academy Bond Program (QZAB) certificates of participation. The QZAB certificates represent interest free financing for the District. Owners of the QZAB certificates receive a Federal tax credit in lieu of charging the District interest on the certificates. The certificates mature on December 1, 2020. As of June 30, 2017, Chase Bank held \$4,733,884 for payment of principal.

Other Postemployment Benefits (OPEB) Obligation

The District's annual required contribution for the year ended June 30, 2017, was \$1,231,699, and contributions made by the District during the year were \$623,209. Interest on the net OPEB obligation and adjustments to the annual required contribution were \$104,608 and \$(151,237), respectively, which resulted in an increase to the net OPEB obligation of \$561,861. As of June 30, 2017, the net OPEB obligation was \$3,177,042. See Note 11 for additional information regarding the OPEB obligation and the postemployment benefits plan.

SANTEE SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 10 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Deferred Maintenance Fund	Capital Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Debt Service Fund for for Blended Component Units	Non-Major Governmental Funds	Total
Nonspendable							
Revolving cash	\$ 20,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 20,000
Stores inventories	71,132	-	-	-	-	59,735	130,867
Prepaid expenditures	375,869	-	-	-	-	-	375,869
Total Nonspendable	<u>467,001</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>59,735</u>	<u>526,736</u>
Restricted							
Legally restricted programs	390,515	-	-	-	-	534,645	925,160
Capital projects	-	-	3,559,865	-	-	-	3,559,865
Debt services	-	-	-	-	5,169,853	2,182,802	7,352,655
Total Restricted	<u>390,515</u>	<u>-</u>	<u>3,559,865</u>	<u>-</u>	<u>5,169,853</u>	<u>2,717,447</u>	<u>11,837,680</u>
Committed							
Deferred maintenance program	-	95,639	-	-	-	-	95,639
Assigned							
Site and department carryover	1,585,747	-	-	-	-	-	1,585,747
Capital projects	-	-	-	3,969,822	-	-	3,969,822
Other assignments	238,200	-	-	-	-	-	238,200
Total Assigned	<u>1,823,947</u>	<u>-</u>	<u>-</u>	<u>3,969,822</u>	<u>-</u>	<u>-</u>	<u>5,793,769</u>
Unassigned							
Economic uncertainties	1,941,520	-	-	-	-	-	1,941,520
Remaining unassigned	13,025,069	-	-	-	-	-	13,025,069
Total Unassigned	<u>14,966,589</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,966,589</u>
Total	<u>\$ 17,648,052</u>	<u>\$ 95,639</u>	<u>\$ 3,559,865</u>	<u>\$ 3,969,822</u>	<u>\$ 5,169,853</u>	<u>\$ 2,777,182</u>	<u>\$ 33,220,413</u>

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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

Plan Description

The Postemployment Benefits Plan (the Plan) is a single-employer defined benefit healthcare plan administered by the Santee School District. The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Membership of the Plan consists of 79 retirees currently receiving benefits, as well as 548 active employees who may become eligible to retire and receive benefits in the future.

Contribution Information

The contribution requirements of Plan members and the District are established and may be amended by the District and the Teachers Association, the local California Service Employees Association (CSEA), and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually. For fiscal year 2016-2017, the District contributed \$623,209 to the Plan.

Annual OPEB Cost and Net OPEB Obligation

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

	Governmental Activities	Business-Type Activities
Annual required contribution	\$ 1,110,036	\$ 121,663
Interest on net OPEB obligation	94,275	10,333
Adjustment to annual required contribution	(136,298)	(14,939)
Annual OPEB cost (expense)	1,068,013	117,057
Contributions made	(561,651)	(61,558)
Increase in net OPEB obligation	506,362	55,499
Net OPEB obligation, beginning of year	2,461,652	153,529
Net OPEB obligation, end of year	<u>\$ 2,968,014</u>	<u>\$ 209,028</u>

SANTEE SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

Trend Information

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

Governmental Activities

Year Ended June 30,	Annual OPEB Cost	Actual Contribution	Percentage Contributed	Net OPEB Obligation
2015	\$ 1,200,101	\$ 881,305	73.44%	\$ 1,968,239
2016	1,124,297	630,884	56.11%	2,461,652
2017	1,068,013	561,651	52.59%	2,968,014

Business-Type Activities

Year Ended June 30,	Annual OPEB Cost	Actual Employer Contribution	Percentage Contributed	Net OPEB Obligation
2016	\$ 70,120	\$ 39,347	56.11%	\$ 153,529
2017	117,057	61,558	52.59%	209,028

Funded Status and Funding Progress

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
July 1, 2015	\$ -	\$ 10,301,495	\$ 10,301,495	0%	\$ 37,724,454	27%

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

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Actuarial Methods and Assumptions

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

In the July 1, 2015, actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a five percent discount rate. Healthcare cost trend rates ranged from an initial eight percent to an ultimate rate of five percent. The UAAL is being amortized at a level dollar method. The remaining amortization period at July 1, 2017, was 25 years.

NOTE 12 - RISK MANAGEMENT

Workers' Compensation

For fiscal year 2017, the District participated in the San Diego County Office of Education (SDCOE) Joint Powers Authority (JPA), an insurance purchasing pool. The intent of the SDCOE JPA is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in SDCOE JPA. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all districts in SDCOE JPA. Each participant pays its workers' compensation premium based on its individual rate.

Property and Liability

The District is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2017, the District was a member of the San Diego County Office of Education (SDCOE) joint powers authority for property and liability insurance coverage.

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS

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

For the fiscal year ended June 30, 2017, the District reported net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense for each of the above plans as follows:

Pension Plan	Collective Net Pension Liability	Collective Deferred Outflows of Resources	Collective Deferred Inflows of Resources	Collective Pension Expense
CalSTRS	\$ 45,228,603	\$ 8,579,143	\$ 2,131,082	\$ 4,433,087
CalPERS	14,990,505	5,686,988	450,375	750,850
Total	\$ 60,219,108	\$ 14,266,131	\$ 2,581,457	\$ 5,183,937

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

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

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2015, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publically available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/member-publications>.

Benefits Provided

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

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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

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

The STRP provisions and benefits in effect at June 30, 2017, are summarized as follows:

	STRP Defined Benefit Program	
	On or before	On or after
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 Years of Service	5 Years of Service
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	10.25%	9.205%
Required employer contribution rate	12.58%	12.58%
Required State contribution rate	8.828%	8.828%

Contributions

Required member District and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven year period. The contribution rates for each plan for the year ended June 30, 2017, are presented above and the District's total contributions were \$3,871,061.

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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

At June 30, 2017, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related state support and the total portion of the net pension liability that was associated with the District were as follows:

Total Net Pension Liability, Including State Share:

District's proportionate share of net pension liability	\$ 45,228,603
State's proportionate share of the net pension liability associated with the District	<u>25,747,837</u>
Total	<u><u>\$ 70,976,440</u></u>

The net pension liability was measured as of June 30, 2016. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. The District's proportionate share for the measurement period June 30, 2016 and June 30, 2015, respectively, was 0.0559 percent and 0.0575 percent, resulting in a net decrease in the proportionate share of 0.0016 percent.

For the year ended June 30, 2017, the District recognized pension expense of \$4,433,087. In addition, the District recognized pension expense and revenue of \$2,488,799 for support provided by the State. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 3,871,061	\$ -
Net change in proportionate share of net pension liability	1,112,429	1,027,782
Difference between projected and actual earnings on pension plan investments	3,595,653	-
Differences between expected and actual experience in the measurement of the total pension liability	-	1,103,300
Total	<u><u>\$ 8,579,143</u></u>	<u><u>\$ 2,131,082</u></u>

SANTEE SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

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

Year Ended <u>June 30,</u>	Deferred Outflows of Resources
2018	\$ 78,445
2019	78,446
2020	2,090,166
2021	1,348,596
Total	<u>\$ 3,595,653</u>

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

Year Ended <u>June 30,</u>	Deferred Outflows/(Inflows) of Resources
2018	\$ (150,171)
2019	(150,171)
2020	(150,171)
2021	(150,171)
2022	(150,166)
Thereafter	(267,803)
Total	<u>\$ (1,018,653)</u>

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Actuarial Methods and Assumptions

Total pension liability for STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2015, and rolling forward the total pension liability to June 30, 2016. The financial reporting actuarial valuation as of June 30, 2015, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2015
Measurement date	June 30, 2016
Experience study	July 1, 2006 through June 30, 2010
Actuarial cost method	Entry age normal
Discount rate	7.60%
Investment rate of return	7.60%
Consumer price inflation	3.00%
Wage growth	3.75%

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

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	47%	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%

Discount Rate

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

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

Discount Rate	Net Pension Liability
1% decrease (6.60%)	\$ 65,094,161
Current discount rate (7.60%)	45,228,603
1% increase (8.60%)	28,729,426

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

California Public Employees Retirement System (CalPERS)

Plan Description

Qualified employees are eligible to participate in the School Employer Pool (SEP) and the Safety Risk 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. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2015 annual actuarial valuation report, Schools Pool Actuarial Valuation, and the Risk Pool Actuarial Valuation Report, Safety. These reports and CalPERS audited financial information are publically available reports that can be found on the CalPERS website under Forms and Publications at: <https://www.calpers.ca.gov/page/forms-publications>.

Benefits Provided

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

The CalPERS provisions and benefits in effect at June 30, 2017, are summarized as follows:

	School Employer Pool (CalPERS)	
	On or before	On or after
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 Years of Service	5 Years of Service
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.00%	6.00%
Required employer contribution rate	13.888%	13.888%

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2017, are presented above and the total District contributions were \$1,311,594.

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

As of June 30, 2017, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$14,990,505. The net pension liability was measured as of June 30, 2016. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2016 and June 30, 2015, respectively, was 0.0759 percent and 0.0756 percent, resulting in a net increase in the proportionate share of 0.0003 percent.

For the year ended June 30, 2017, the District recognized pension expense of \$750,850. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 1,311,594	\$ -
Net change in proportionate share of net pension liability	1,404,614	-
Difference between projected and actual earnings on pension plan investments	2,326,045	-
Differences between expected and actual experience in the measurement of the total pension liability	644,735	-
Changes of assumptions	-	450,375
Total	<u>\$ 5,686,988</u>	<u>\$ 450,375</u>

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

SANTEE SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

Year Ended June 30,	Deferred Outflows of Resources
2018	\$ 326,258
2019	326,259
2020	1,066,450
2021	607,078
Total	<u>\$ 2,326,045</u>

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2018	\$ 564,614
2019	560,772
2020	473,588
Total	<u>\$ 1,598,974</u>

Actuarial Methods and Assumptions

Total pension liability for the SEP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2015, and rolling forward the total pension liability to June 30, 2016. The financial reporting actuarial valuation as of June 30, 2015, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2015
Measurement date	June 30, 2016
Experience study	July 1, 1997 through June 30, 2011
Actuarial cost method	Entry age normal
Discount rate	7.65%
Investment rate of return	7.65%
Consumer price inflation	2.75%
Wage growth	Varies by entry age and service

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

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global equity	51%	5.71%
Global debt securities	20%	2.43%
Inflation assets	6%	3.36%
Private equity	10%	6.95%
Real estate	10%	5.13%
Infrastructure and Forestland	2%	5.09%
Liquidity	1%	-1.05%

Discount Rate

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

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

<u>Discount rate</u>	<u>Net Pension Liability</u>
1% decrease (6.65%)	\$ 22,365,917
Current discount rate (7.65%)	14,990,505
1% increase (8.65%)	8,849,023

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of \$2,288,291 (8.602 percent of annual payroll). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS.). Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. However, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves, and have not been included in the budget amounts reported in the *General Fund - Budgetary Comparison Schedule*.

Social Security

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

NOTE 14 - COMMITMENTS AND CONTINGENCIES

Grants

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2017.

Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2017.

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 15 - PARTICIPATION IN JOINT POWERS AGENCY

The District is a member of the San Diego County Office of Education (SDCOE) JPA. The District pays an annual premium to this entity for its workers' compensation coverage. The relationship between the District and the JPA is such that it is not component units of the District for financial reporting purposes.

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

The District has appointed a representative to the governing board of the SDCOE JPA. During the year ended June 30, 2017, the District paid \$307,644 to SDCOE JPA for workers' compensation.

As of June 30, 2017, the District had residual balances held by Southern California Regional Liability Excess Fund (SoCal ReLiEF) joint powers agency for payment of future claims. The balances for property and liability and workers' compensation claims were \$144,089 and \$489,830 respectively.

NOTE 16 – SUBSEQUENT EVENTS

On July 25, 2017, the District issued General Obligation Refunding Bonds, Series 2017, (the Refunding Bonds) in the amount of \$10,750,000. Proceeds from the Refunding Bonds will be used to refund a portion of the outstanding General Obligation Bonds, 2006 Election, Series B and to pay costs of issuance of the Refunding Bonds.

REQUIRED SUPPLEMENTARY INFORMATION

SANTEE SCHOOL DISTRICT

**GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2017**

	Budgeted Amounts		Actual (GAAP Basis)	Variances -
	Original	Final		Positive (Negative) Final to Actual
REVENUES				
Local Control Funding Formula	\$51,222,046	\$51,873,820	\$51,891,986	\$ 18,166
Federal sources	2,185,644	2,430,477	2,305,223	(125,254)
Other State sources	3,450,123	5,816,017	5,872,502	56,485
Other local sources	3,819,598	4,802,990	5,738,967	935,977
Total Revenues ¹	60,677,411	64,923,304	65,808,678	885,374
EXPENDITURES				
Current				
Certificated salaries	30,400,593	30,620,712	30,857,031	(236,319)
Classified salaries	8,960,421	8,861,676	8,845,285	16,391
Employee benefits	10,757,555	12,767,616	12,705,683	61,933
Books and supplies	5,769,830	6,515,788	3,650,118	2,865,670
Services and operating expenditures	4,242,903	4,960,766	4,809,337	151,429
Capital outlay	955,847	1,379,629	1,300,889	78,740
Other outgo	782,885	831,760	-	831,760
Total Expenditures ¹	61,870,034	65,937,947	62,168,343	3,769,604
Excess (Deficiency) of Revenues Over Expenditures	(1,192,623)	(1,014,643)	3,640,335	4,654,978
Other Financing Sources (Uses)				
Transfers in	20,170	20,170	22,271	2,101
Transfers out	(1,111,405)	(1,599,831)	(2,500,079)	(900,248)
Other uses	-	-	(48,898)	(48,898)
Net Financing Sources (Uses)	(1,091,235)	(1,579,661)	(2,526,706)	(947,045)
NET CHANGE IN FUND BALANCE	(2,283,858)	(2,594,304)	1,113,629	3,707,933
Fund Balance - Beginning	16,534,423	16,534,423	16,534,423	-
Fund Balance - Ending	\$14,250,565	\$13,940,119	\$17,648,052	\$ 3,707,933

¹ On behalf payments of \$2,288,291 are included in the actual revenues and expenditures, but have not been included in the budgeted amounts. In addition, due to the consolidation of Fund 17, Special Reserve Fund Other than Capital Outlay Projects for reporting purposes into the General Fund, additional revenues and expenditures pertaining to these other funds are included in the Actual (GAAP Basis) revenues and expenditures, however are not included in the original and final General Fund budgets.

See accompanying note to required supplementary information.

SANTEE SCHOOL DISTRICT

**SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING
PROGRESS
FOR THE YEAR ENDED JUNE 30, 2017**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Unprojected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([(b - a) / c])
July 1, 2011	\$ -	\$ 12,027,903	\$ 12,027,903	0%	\$ 31,908,888	38%
July 1, 2013	-	11,479,915	11,479,915	0%	34,262,205	34%
July 1, 2015	-	10,301,495	10,301,495	0%	37,724,454	27%

See accompanying note to required supplementary information.

SANTEE SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY FOR THE YEAR ENDED JUNE 30, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>
CalSTRS			
District's proportion of the net pension liability	0.0559%	0.0575%	0.0554%
District's proportionate share of the net pension liability	\$ 45,228,603	\$ 38,739,370	\$ 32,375,968
State's proportionate share of the net pension liability associated with the District	25,747,837	20,488,856	19,550,007
Total	<u>\$ 70,976,440</u>	<u>\$ 59,228,226</u>	<u>\$ 51,925,975</u>
District's covered - employee payroll	<u>\$ 27,876,719</u>	<u>\$ 26,226,588</u>	<u>\$ 24,873,673</u>
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	162.25%	147.71%	130.16%
Plan fiduciary net position as a percentage of the total pension liability	70%	74%	77%
CalPERS			
District's proportion of the net pension liability	0.0759%	0.0756%	0.0742%
District's proportionate share of the net pension liability	\$ 14,990,505	\$ 11,143,726	\$ 8,423,067
District's covered - employee payroll	<u>\$ 9,277,378</u>	<u>\$ 8,463,152</u>	<u>\$ 7,731,367</u>
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	161.58%	131.67%	108.95%
Plan fiduciary net position as a percentage of the total pension liability	74%	79%	83%

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

See accompanying note to required supplementary information.

SANTEE SCHOOL DISTRICT

**SCHEDULE OF DISTRICT CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
CalSTRS			
Contractually required contribution	\$ 3,871,061	\$ 2,991,172	\$ 2,328,921
Contributions in relation to the contractually required contribution	<u>3,871,061</u>	<u>2,991,172</u>	<u>2,328,921</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered - employee payroll	<u>\$ 30,771,550</u>	<u>\$ 27,876,719</u>	<u>\$ 26,226,588</u>
Contributions as a percentage of covered - employee payroll	<u>12.58%</u>	<u>10.73%</u>	<u>8.88%</u>
CalPERS			
Contractually required contribution	\$ 1,311,594	\$ 1,099,091	\$ 996,113
Contributions in relation to the contractually required contribution	<u>1,311,594</u>	<u>1,099,091</u>	<u>996,113</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered - employee payroll	<u>\$ 9,444,081</u>	<u>\$ 9,277,378</u>	<u>\$ 8,463,152</u>
Contributions as a percentage of covered - employee payroll	<u>13.89%</u>	<u>11.85%</u>	<u>11.77%</u>

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

See accompanying note to required supplementary information.

SANTEE SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2017

NOTE 1 - PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

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

Schedule of Other Postemployment Benefits (OPEB) Funding Progress

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

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

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

Changes in Benefit Terms - There were no changes in benefit terms since the previous valuations for both CalSTRS and CalPERS.

Changes in Assumptions - There were no changes in economic assumptions for either the CalSTRS or CalPERS plans from the previous valuations.

Schedule of District Contributions

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

SUPPLEMENTARY INFORMATION

SANTEE SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017**

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures	Passed Through to Subrecipients
U.S. DEPARTMENT OF EDUCATION				
Passed through California Department of Education (CDE):				
Special Education (IDEA) Cluster:				
Basic Local Assistance Entitlement, Part B, Section 611	84.027	13379	\$ 1,023,040	\$ -
Preschool Grants, Part B, Section 619 (Age 3-4-5)	84.173	13430	84,634	-
Preschool Local Entitlement, Part B, Section 611 (Age 3-4-5)	84.027A	13682	224,007	-
Mental Health Allocation Plan, Part B, Section 611	84.027A	15197	21,987	-
Preschool Staff Development, Part B, Section 619	84.173A	13431	607	-
Total Special Education (IDEA) Cluster			<u>1,354,275</u>	<u>-</u>
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329	399,284	-
Title II, Part A, Improving Teacher Quality Local Grants	84.367	14341	116,296	-
Title III, English Language Acquisition State Grants				
Title III, English Learner Student Program	84.365	14346	5,127	-
Title III, Immigrant Education Program	84.365	15146	8,991	-
Total Title III, English Language Acquisition State			<u>14,118</u>	<u>-</u>
Education for Homeless Children and Youth	84.196	14332	83,103	34,205
Federal Impact Aid (ESEA, Title VIII)	84.041	10015	88,088	-
Total U.S. Department of Education			<u>2,055,164</u>	<u>34,205</u>
U.S. DEPARTMENT OF DEFENSE				
DODEA Santee Empowerment	12.556	[1]	87,063	-
U.S. DEPARTMENT OF AGRICULTURE				
Passed through CDE:				
Child Nutrition Cluster:				
Especially Needy Breakfast	10.553	13526	362,388	-
National School Lunch Program	10.555	13524	1,165,483	-
Food Distribution	10.555	13524	217,477	-
Total Child Nutrition Cluster			<u>1,745,348</u>	<u>-</u>
Child Care Food Program	10.558	13393	109,788	-
Total U.S. Department of Agriculture			<u>1,855,136</u>	<u>-</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Passed through California Department of Health Services:				
Medi-Cal Assistance Program				
Medi-Cal Billing Option	93.778	10013	126,741	-
Medi-Cal Administrative Activities Program	93.778	10060	36,255	-
Total Medi-Cal Assistance Program:			<u>162,996</u>	<u>-</u>
Total U.S. Department of Health and Human Services			<u>162,996</u>	<u>-</u>
Total Expenditures of Federal Awards			<u>\$ 4,160,359</u>	<u>\$ 34,205</u>

[1] Pass-Through Entity Identifying Number not available

See accompanying note to supplementary information.

SANTEE SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2017

ORGANIZATION

The Santee School District was established in 1893, and consists of an area comprising approximately 16.56 square miles. The District operates one K-6 elementary school, eight K-8 elementary schools, and an alternative school program. There were no boundary changes during the year.

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Elana Levens-Craig	President	December 2020
Dianne El-Hajj	Vice President	December 2020
Ken Fox	Clerk	December 2018
Barbara Ryan	Member	December 2018
Dustin Burns	Member	December 2018

ADMINISTRATION

Kristin Baranski	Superintendent
Karl Christensen	Assistant Superintendent, Business Services
Dr. Stephanie Pierce	Assistant Superintendent, Educational Services
Tim Larson	Assistant Superintendent, Human Resources / Pupil Services

See accompanying note to supplementary information.

SANTEE SCHOOL DISTRICT

SCHEDULE OF AVERAGE DAILY ATTENDANCE FOR THE YEAR ENDED JUNE 30, 2017

	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Transitional kindergarten through third	3,096.42	3,111.20
Fourth through sixth	2,130.21	2,129.70
Seventh and eighth	1,285.93	1,283.92
Total Regular ADA	<u>6,512.56</u>	<u>6,524.82</u>
Extended Year Special Education		
Transitional kindergarten through third	3.10	3.10
Fourth through sixth	2.51	2.51
Seventh and eighth	1.16	1.16
Total Extended Year Special Education	<u>6.77</u>	<u>6.77</u>
Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	1.74	2.05
Fourth through sixth	1.09	1.29
Seventh and eighth	1.90	2.10
Total Special Education, Nonpublic, Nonsectarian Schools	<u>4.73</u>	<u>5.44</u>
Extended Year Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	0.34	0.34
Community Day School		
Fourth through sixth	1.32	1.59
Seventh and eighth	5.11	5.71
Total Community Day School	<u>6.43</u>	<u>7.30</u>
Total ADA	<u><u>6,530.83</u></u>	<u><u>6,544.67</u></u>

See accompanying note to supplementary information.

SANTEE SCHOOL DISTRICT

**SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2017**

Grade Level	1986-87	2016-17	Number of Days		Status
	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Kindergarten	36,000	55,350	180	N/A	Complied
Grades 1 - 3	50,400				
Grade 1		52,650	180	N/A	Complied
Grade 2		52,650	180	N/A	Complied
Grade 3		52,650	180	N/A	Complied
Grades 4 - 6	54,000				
Grade 4		57,174	180	N/A	Complied
Grade 5		57,174	180	N/A	Complied
Grade 6		57,174	180	N/A	Complied
Grades 7 - 8	54,000				
Grade 7		59,874	180	N/A	Complied
Grade 8		59,874	180	N/A	Complied

See accompanying note to supplementary information.

SANTEE SCHOOL DISTRICT

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

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

	<u>Childcare Enterprise Fund</u>
FUND BALANCE	
Balance, June 30, 2017, Unaudited Actuals	\$ 1,382,868
Increase in:	
Deferred outflows of resources related to pensions	867,119
Net pension liability	(2,334,254)
Deferred inflows of resources related to pensions	(72,792)
Net OPEB obligation	<u>(209,028)</u>
Balance, June 30, 2017, Audited Financial Statement	<u>\$ (366,087)</u>

See accompanying note to supplementary information.

SANTEE SCHOOL DISTRICT

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017**

	(Budget) 2018 ¹	2017	2016	2015
GENERAL FUND ⁴				
Revenues	\$ 64,838,239	\$ 65,778,862	\$ 63,694,905	\$ 52,282,001
Other sources and transfers in	20,170	22,271	29,143	33,562
Total Revenues and Other Sources	64,858,409	65,801,133	63,724,048	52,315,563
Expenditures	65,544,514	62,217,241	57,239,056	52,157,243
Other uses and transfers out	1,729,781	2,500,079	2,912,811	719,559
Total Expenditures and Other Uses	67,274,295	64,717,320	60,151,867	52,876,802
INCREASE (DECREASE) IN FUND BALANCE	\$ (2,415,886)	\$ 1,083,813	\$ 3,572,181	\$ (561,239)
ENDING FUND BALANCE	\$ 12,300,331	\$ 14,716,217	\$ 13,632,404	\$ 10,060,223
AVAILABLE RESERVES ²	\$ 11,362,506	\$ 14,966,589	\$ 14,298,730	\$ 8,452,896
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO ³	16.9%	23.13%	23.77%	15.99%
LONG-TERM OBLIGATIONS	N/A	\$ 98,870,664	\$ 97,804,999	\$ 84,808,619
K-12 AVERAGE DAILY ATTENDANCE AT P-2	6,531	6,531	6,278	6,278

The General Fund balance has increased by \$4,655,994 over the past two years. The fiscal year 2017-2018 budget projects a decrease of \$2,415,886 (16.42 percent). For a district this size, the State recommends available reserves of at least 3 percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in two of the past three years and anticipates incurring an operating deficit during the 2017-2018 fiscal year. Total long-term obligations have increased by \$14,062,045 over the past two years.

Average daily attendance has increased by 253 over the past two years.

¹ Budget 2018 is included for analytical purposes only and has not been subjected to audit.

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

³ On behalf payments of \$1,383,380 have been excluded from the calculation of available reserves for the fiscal years ending June 30, 2015.

⁴ General Fund amounts do not include activity related to the consolidation of the Special Reserve Fund for Other than Capital Outlay Projects as required by GASB Statement No. 54.

See accompanying note to supplementary information.

SANTEE SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2017**

	Child Development Fund	Cafeteria Fund
	<u> </u>	<u> </u>
ASSETS		
Deposits and investments	\$ 36,155	\$ 464,698
Receivables	43,382	302,332
Due from other funds	120	17
Stores inventories	-	59,735
Total Assets	<u>\$ 79,657</u>	<u>\$ 826,782</u>
 LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable	\$ 15,889	\$ 102,217
Due to other funds	58,711	135,242
Total Liabilities	<u>74,600</u>	<u>237,459</u>
Fund Balances:		
Nonspendable	-	59,735
Restricted	5,057	529,588
Total Fund Balances	<u>5,057</u>	<u>589,323</u>
Total Liabilities and Fund Balances	<u>\$ 79,657</u>	<u>\$ 826,782</u>

See accompanying note to supplementary information.

County School Facilities Fund	Bond Interest and Redemption Fund	Total Non-Major Governmental Funds
\$ 7	\$ 2,182,802	\$ 2,683,662
-	-	345,714
-	-	137
-	-	59,735
<u>\$ 7</u>	<u>\$ 2,182,802</u>	<u>\$ 3,089,248</u>

\$ -	\$ -	\$ 118,106
7	-	193,960
<u>7</u>	<u>-</u>	<u>312,066</u>
-	-	59,735
-	2,182,802	2,717,447
<u>-</u>	<u>2,182,802</u>	<u>2,777,182</u>
<u>\$ 7</u>	<u>\$ 2,182,802</u>	<u>\$ 3,089,248</u>

SANTEE SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2017**

	Child Development Fund	Cafeteria Fund
REVENUES		
Federal sources	\$ -	\$ 1,855,136
Other State sources	247,648	115,535
Other local sources	478	703,455
Total Revenues	<u>248,126</u>	<u>2,674,126</u>
EXPENDITURES		
Current		
Instruction	206,111	-
Instruction-related activities:		
Supervision of instruction	23,939	-
Instructional library, media, and technology	1,247	-
Pupil services:		
Food services	-	2,610,687
Administration:		
All other administration	16,330	114,085
Plant services	-	55,854
Facility acquisition and construction	-	-
Debt service		
Principal	-	-
Interest and other	-	-
Total Expenditures	<u>247,627</u>	<u>2,780,626</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>499</u>	<u>(106,500)</u>
Other Financing Uses		
Transfers out	-	(2,101)
NET CHANGE IN FUND BALANCES	499	(108,601)
Fund Balances - Beginning	4,558	697,924
Fund Balances - Ending	<u>\$ 5,057</u>	<u>\$ 589,323</u>

See accompanying note to supplementary information.

County School Facilities Fund	Bond Interest and Redemption Fund	Total Non-Major Governmental Funds
\$ -	\$ -	\$ 1,855,136
-	32,094	395,277
7	2,542,372	3,246,312
7	2,574,466	5,496,725
-	-	206,111
-	-	23,939
-	-	1,247
-	-	2,610,687
-	-	130,415
-	-	55,854
7	-	7
-	1,020,000	1,020,000
-	1,223,193	1,223,193
7	2,243,193	5,271,453
-	331,273	225,272
-	-	(2,101)
-	331,273	223,171
-	1,851,529	2,554,011
\$ -	\$ 2,182,802	\$ 2,777,182

SANTEE SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2017

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

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

Local Education Agency Organization Structure

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

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

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

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

Reconciliation of Annual Financial and Budget Report With Audited Financial Statements

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

Schedule of Financial Trends and Analysis

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

SANTEE SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2017

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

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

INDEPENDENT AUDITOR'S REPORTS



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

Governing Board
Santee School District
Santee, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Santee School District (the District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Santee School District's basic financial statements, and have issued our report thereon dated December 8, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Santee 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*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vavrinek, Trine, Day & Co. LLP

Rancho Cucamonga, California
December 8, 2017



VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

VALUE THE *difference*

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

Governing Board
Santee School District
Santee, California

Report on Compliance for Each Major Federal Program

We have audited Santee 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 Santee School District's (the District) major Federal programs for the year ended June 30, 2017. Santee School District's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

Opinion on Each Major Federal Program

In our opinion, Santee 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, 2017.

Report on Internal Control Over Compliance

Management of Santee 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 Santee 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 Santee 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 a 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.

Vavrinek, Trine, Day & Co. LLP

Rancho Cucamonga, California
December 8, 2017



INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
Santee School District
Santee, California

Report on State Compliance

We have audited Santee School District's compliance with the types of compliance requirements as identified in the *2016-2017 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* that could have a direct and material effect on each of the Santee School District's State government programs as noted below for the year ended June 30, 2017.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the Santee School District's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2016-2017 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about Santee School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of Santee School District's compliance with those requirements.

Unmodified Opinion on Each of the Programs

In our opinion, Santee School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2017.

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

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

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

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

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

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

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

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

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

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

Vavrinek, Trine, Day & Co. LLP

Rancho Cucamonga, California
December 8, 2017

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SANTEE SCHOOL DISTRICT

**SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2017**

FINANCIAL STATEMENTS

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

FEDERAL AWARDS

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

Identification of major Federal programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.027, 84.027A, 84.173, and <u>84.173A</u>	<u>Special Education (IDEA) Cluster</u>

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

STATE AWARDS

Type of auditor's report issued on compliance for State programs:	<u>Unmodified</u>
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SANTEE SCHOOL DISTRICT

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017**

None reported.

SANTEE SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017**

None reported.

SANTEE SCHOOL DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017**

None reported.

SANTEE SCHOOL DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017**

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