



SANTEE SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

JUNE 30, 2018

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, 2018, 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 *2017-2018 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Change in Accounting Principles

As discussed in Note 1 and Note 15 to the financial statements, in 2018, the District adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 12, budgetary comparison schedule on page 72, schedule of changes in the District's total OPEB liability and related ratios on page 73, schedule of the District's proportionate share of the net OPEB liability - MPP program on page 74, schedule of the District's proportionate share of net pension liability on page 75, and the schedule of District contributions on page 76, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Santee School District's basic financial statements. The accompanying supplementary information such as the combining and individual non-major fund financial statements and Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (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 5, 2018, 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 5, 2018



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) (2017-2018) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2018, with comparative information from 2017. 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, proprietary, and fiduciary.

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

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

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

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

SANTEE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

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's Local Control Accountability Plan incorporates 19 action steps to fund operations and increase or improve services for students. For 2017-2018 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, 2018

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, 2018

THE DISTRICT AS A WHOLE

Net Position

The District's net position of governmental activities was \$24,632,234 for the fiscal year ended June 30, 2018. Of this amount, \$(44,460,910) 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	
	2018	(as Restated) 2017	2018	(as Restated) 2017	2018	(as Restated) 2017
Assets						
Current and other assets	\$ 40,946,344	\$ 35,996,100	\$ 1,586,372	\$ 1,449,571	\$ 42,532,716	\$ 37,445,671
Capital assets	127,041,272	126,753,930	-	-	127,041,272	126,753,930
Total Assets	167,987,616	162,750,030	1,586,372	1,449,571	169,573,988	164,199,601
Deferred Outflows of Resources						
	38,954,278	28,736,217	1,284,252	867,119	40,238,530	29,603,336
Liabilities						
Current liabilities	2,576,085	3,515,215	76,242	66,703	2,652,327	3,581,918
Long-term obligations	107,778,702	106,739,105	800,156	769,721	108,578,858	107,508,826
Aggregate net pension liability	68,579,110	57,884,854	2,996,675	2,334,254	71,575,785	60,219,108
Total Liabilities	178,933,897	168,139,174	3,873,073	3,170,678	182,806,970	171,309,852
Deferred Inflows of Resources						
	3,375,763	2,508,665	43,928	72,792	3,419,691	2,581,457
Net Position						
Net investment in capital assets	54,775,998	53,503,442	-	-	54,775,998	53,503,442
Restricted	14,317,146	11,098,152	-	-	14,317,146	11,098,152
Unrestricted (Deficit)	(44,460,910)	(43,763,186)	(1,046,377)	(926,780)	(45,507,287)	(44,689,966)
Total Net Position	\$ 24,632,234	\$ 20,838,408	\$ (1,046,377)	\$ (926,780)	\$ 23,585,857	\$ 19,911,628

The \$(44,460,910) 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, 2018**

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 14. 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	
	2018	2017	2018	2017	2018	2017
Revenues						
Program revenues:						
Charges for services	\$ 748,833	\$ 124,699	\$ -	\$ -	\$ 748,833	\$ 124,699
Operating grants and contributions	11,635,009	10,552,449	965,420	859,655	12,600,429	11,412,104
Capital grants and contributions	2,534,816	7	-	-	2,534,816	7
General revenues:						
Federal and State aid	40,057,562	39,697,667	10,500	946	40,068,062	39,698,613
Property taxes	19,510,517	18,359,675	-	-	19,510,517	18,359,675
Other general revenues	5,119,650	4,507,832	2,558,673	2,409,843	7,678,323	6,917,675
Total Revenues	79,606,387	73,242,329	3,534,593	3,270,444	83,140,980	76,512,773
Expenses						
Instruction-related	52,895,881	50,202,182	-	-	52,895,881	50,202,182
Pupil services	7,477,680	7,001,296	-	-	7,477,680	7,001,296
Administration	4,001,112	4,687,111	-	-	4,001,112	4,687,111
Plant services	7,069,926	6,001,278	-	-	7,069,926	6,001,278
Community services	248,844	265,766	-	-	248,844	265,766
Enterprises	63,665	69,298	-	-	63,665	69,298
Other	4,473,067	3,961,052	3,236,576	2,888,459	7,709,643	6,849,511
Total Expenses	76,230,175	72,187,983	3,236,576	2,888,459	79,466,751	75,076,442
Transfers	417,614	20,170	(417,614)	(20,170)	-	-
Change in Net Position	\$ 3,793,826	\$ 1,074,516	\$ (119,597)	\$ 361,815	\$ 3,674,229	\$ 1,436,331

SANTEE SCHOOL DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

Governmental Activities

As reported in the *Statement of Activities* on page 14, the cost of all of our governmental activities this year was \$76,230,175. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$19,510,517 because the cost was paid by those who benefited from the programs (\$748,833) or by other governments and organizations who subsidized certain programs with grants and contributions (\$14,169,825). We paid for the remaining "public benefit" portion of our governmental activities with (\$45,177,212) in Federal and 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 including 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>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Instruction-related	\$ 52,895,881	\$ 50,202,182	\$ 42,064,655	\$ 42,631,068
Pupil services	7,477,680	7,001,296	4,453,919	4,646,153
Administration	4,001,112	4,687,111	3,532,220	4,265,665
Plant services	7,069,926	6,001,278	6,887,686	5,887,464
Community services	248,844	265,766	210,124	185,002
Enterprises	63,665	69,298	55,084	61,670
Other	4,473,067	3,961,052	4,107,829	3,833,806
Total	<u><u>\$ 76,230,175</u></u>	<u><u>\$ 72,187,983</u></u>	<u><u>\$ 61,311,517</u></u>	<u><u>\$ 61,510,828</u></u>

SANTEE SCHOOL DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$39,066,373 which is an increase of \$5,845,960 from last year (Table 4).

Table 4

	Balances and Activity			
	July 1, 2017	Revenues	Expenditures	June 30, 2018
General Fund	\$ 17,648,052	\$ 67,491,298	\$ 65,226,349	\$ 19,913,001
Capital Facilities Fund	3,559,865	3,184,750	1,450,183	5,294,432
County School Facilities Fund	-	2,534,815	1,290,029	1,244,786
Special Reserve Fund for Capital Outlay Projects	3,969,822	2,177,633	1,724,793	4,422,662
Debt Service Fund for Blended Component Units	5,169,853	1,539,293	1,562,543	5,146,603
Non-Major Governmental Funds	2,872,821	18,483,247	18,311,179	3,044,889
Total	\$ 33,220,413	\$ 95,411,036	\$ 89,565,076	\$ 39,066,373

The primary reason for significant changes in fund balances are:

- A. General Fund
 - a. 1 million in one-time mandated cost reimbursements funds received.
 - b. Prior year adjustments to Lottery revenue.
 - c. Savings in salary and benefit costs due to retirements.
 - d. Unsettled negotiations with bargaining units.
- B. Capital Facilities Fund
 - a. Developer fees received for large residential development.
- C. County School Facilities Fund
 - a. Receipt of State matching funds for two Capital Improvement Program projects.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2018, the District had \$127,041,272 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 \$287,342, or 0.2 percent, from last year (Table 5). We present more detailed information about our capital assets in Note 5 to the financial statements.

Table 5

	Governmental Activities	
	2018	2017
Land	\$ 8,547,242	\$ 8,547,242
Construction in progress	15,398,798	15,850,327
Buildings and improvements	100,254,883	100,034,520
Furniture and equipment	2,840,349	2,321,841
Total	\$ 127,041,272	\$ 126,753,930

SANTEE SCHOOL DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

Long-Term Obligations

Long-term obligations include general obligation bonds, certificates of participation, capital leases, 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

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	(as Restated)		(as Restated)		(as Restated)	
	2018	2017	2018	2017	2018	2017
General obligation bonds	\$ 60,879,648	\$ 61,136,155	\$ -	\$ -	\$ 60,879,648	\$ 61,136,155
Premium on issuance	3,351,345	2,248,915	-	-	3,351,345	2,248,915
Certificates of participation	25,610,587	26,051,548	-	-	25,610,587	26,051,548
Premium on issuance	674,800	701,792	-	-	674,800	701,792
Accumulated vacation - net	295,037	238,200	-	-	295,037	238,200
Capital lease	530,238	317,012	-	-	530,238	317,012
Qualified Zone Academy Bond	5,000,000	5,000,000	-	-	5,000,000	5,000,000
Net other postemployment benefits (OPEB) liability	11,437,047	11,045,483	800,156	769,721	12,237,203	11,815,204
Total	\$ 107,778,702	\$ 106,739,105	\$800,156	\$ 769,721	\$ 108,578,858	\$ 107,508,826

Net Pension Liability (NPL)

As of June 30, 2018, the District's net pension liability is \$71,575,785. 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.

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, 2018**

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Deposits and investments	\$ 37,387,702	\$ 2,167,016	\$ 39,554,718
Receivables	2,398,086	49,175	2,447,261
Internal balances	629,819	(629,819)	-
Stores inventories	154,868	-	154,868
Other current assets	375,869	-	375,869
Capital assets			
Land and construction in progress	23,946,040	-	23,946,040
Other capital assets	145,944,938	-	145,944,938
Less: accumulated depreciation	(42,849,706)	-	(42,849,706)
Total Capital Assets	<u>127,041,272</u>	<u>-</u>	<u>127,041,272</u>
TOTAL ASSETS	<u>167,987,616</u>	<u>1,586,372</u>	<u>169,573,988</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding	15,256,267	-	15,256,267
Deferred outflows of resources related to net other postemployment benefits (OPEB) liability	533,963	38,847	572,810
Deferred outflows of resources related to pensions	23,164,048	1,245,405	24,409,453
Total Deferred Outflows of Resources	<u>38,954,278</u>	<u>1,284,252</u>	<u>40,238,530</u>
LIABILITIES			
Accounts payable	1,705,728	76,242	1,781,970
Accrued Interest payable	696,114	-	696,114
Unearned revenue	174,243	-	174,243
Long-term obligations:			
Current portion of long-term obligations other than pensions	2,176,281	-	2,176,281
Noncurrent portion of long-term obligations other than pensions	105,602,421	800,156	106,402,577
Total Long-Term Obligations	<u>107,778,702</u>	<u>800,156</u>	<u>108,578,858</u>
Aggregate net pension liability	68,579,110	2,996,675	71,575,785
TOTAL LIABILITIES	<u>178,933,897</u>	<u>3,873,073</u>	<u>182,806,970</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources related to pensions	3,375,763	43,928	3,419,691
NET POSITION			
Net investment in capital assets	54,775,998	-	54,775,998
Restricted for:			
Debt service	6,849,948	-	6,849,948
Capital projects	6,539,218	-	6,539,218
Educational programs	394,089	-	394,089
Other activities	533,891	-	533,891
Unrestricted (Deficit)	(44,460,910)	(1,046,377)	(45,507,287)
TOTAL NET POSITION	<u>\$ 24,632,234</u>	<u>\$ (1,046,377)</u>	<u>\$ 23,585,857</u>

SANTEE SCHOOL DISTRICT

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
Instruction	\$ 46,296,523	\$ 480	\$ 7,744,258	\$ 2,534,816
Instruction-related activities:				
Supervision of instruction	1,006,425	-	175,044	-
Instructional library, media, and technology	1,449,967	-	181,011	-
School site administration	4,142,966	-	195,617	-
Pupil services:				
Home-to-school transportation	1,457,137	6,937	18,920	-
Food services	2,713,577	625,883	1,645,301	-
All other pupil services	3,306,966	1,503	725,217	-
General administration:				
Data processing	656,079	-	-	-
All other general administration	3,345,033	33,123	435,769	-
Plant services	7,069,926	52,641	129,599	-
Community services	248,844	11,107	27,613	-
Enterprise services	63,665	-	8,581	-
Interest on long-term obligations	4,147,938	-	-	-
Other outgo	325,129	17,159	348,079	-
Total Governmental Activities	76,230,175	748,833	11,635,009	2,534,816
Business-Type Activities				
Project Safe and YALE Enterprise	3,236,576	-	965,420	-
Total School District	\$ 79,466,751	\$ 748,833	\$ 12,600,429	\$ 2,534,816

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

Restatement

Net Position - Beginning, as Restated

Net Position - Ending

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

Governmental Activities	Business-Type Activities	Total
\$ (36,016,969)	\$ -	\$ (36,016,969)
(831,381)	-	(831,381)
(1,268,956)	-	(1,268,956)
(3,947,349)	-	(3,947,349)
(1,431,280)	-	(1,431,280)
(442,393)	-	(442,393)
(2,580,246)	-	(2,580,246)
(656,079)	-	(656,079)
(2,876,141)	-	(2,876,141)
(6,887,686)	-	(6,887,686)
(210,124)	-	(210,124)
(55,084)	-	(55,084)
(4,147,938)	-	(4,147,938)
40,109	-	40,109
<u>(61,311,517)</u>	<u>-</u>	<u>(61,311,517)</u>
-	(2,271,156)	(2,271,156)
<u>(61,311,517)</u>	<u>(2,271,156)</u>	<u>(63,582,673)</u>
16,402,757	-	16,402,757
2,641,469	-	2,641,469
466,291	-	466,291
40,057,562	10,500	40,068,062
292,214	27,373	319,587
4,827,436	2,531,300	7,358,736
<u>64,687,729</u>	<u>2,569,173</u>	<u>67,256,902</u>
3,376,212	298,017	3,674,229
417,614	(417,614)	-
<u>3,793,826</u>	<u>(119,597)</u>	<u>3,674,229</u>
28,915,877	(366,087)	28,549,790
(8,077,469)	(560,693)	(8,638,162)
<u>20,838,408</u>	<u>(926,780)</u>	<u>19,911,628</u>
<u>\$ 24,632,234</u>	<u>\$ (1,046,377)</u>	<u>\$ 23,585,857</u>

SANTEE SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2018**

	General Fund	Capital Facilities Fund	County School Facilities Fund
ASSETS			
Deposits and investments	\$ 18,484,695	\$ 3,880,832	\$ 2,520,243
Receivables	2,216,846	15,450	11,545
Due from other funds	429,290	1,684,446	-
Stores inventories	88,850	-	-
Other current assets	375,869	-	-
Total Assets	\$ 21,595,550	\$ 5,580,728	\$ 2,531,788
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 1,266,123	\$ 286,296	\$ -
Due to other funds	242,183	-	1,287,002
Unearned revenue	174,243	-	-
Total Liabilities	1,682,549	286,296	1,287,002
Fund Balances:			
Nonspendable	484,719	-	-
Restricted	394,089	5,294,432	1,244,786
Committed	-	-	-
Assigned	724,766	-	-
Unassigned	18,309,427	-	-
Total Fund Balances	19,913,001	5,294,432	1,244,786
Total Liabilities and Fund Balances	\$ 21,595,550	\$ 5,580,728	\$ 2,531,788

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

Special Reserve Fund for Capital Outlay Projects	Debt Service Fund for Blended Component Units	Non-Major Governmental Funds	Total Governmental Funds
\$ 4,349,928	\$ 5,146,603	\$ 3,005,401	\$ 37,387,702
20,655	-	133,590	2,398,086
59,500	-	198,894	2,372,130
-	-	66,018	154,868
-	-	-	375,869
<u>\$ 4,430,083</u>	<u>\$ 5,146,603</u>	<u>\$ 3,403,903</u>	<u>\$ 42,688,655</u>
\$ 7,421	\$ -	\$ 145,888	\$ 1,705,728
-	-	213,126	1,742,311
-	-	-	174,243
<u>7,421</u>	<u>-</u>	<u>359,014</u>	<u>3,622,282</u>
-	-	66,018	550,737
-	5,146,603	2,933,350	15,013,260
-	-	45,521	45,521
4,422,662	-	-	5,147,428
-	-	-	18,309,427
<u>4,422,662</u>	<u>5,146,603</u>	<u>3,044,889</u>	<u>39,066,373</u>
<u>\$ 4,430,083</u>	<u>\$ 5,146,603</u>	<u>\$ 3,403,903</u>	<u>\$ 42,688,655</u>

SANTEE SCHOOL DISTRICT

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

Total Fund Balance - Governmental Funds	\$ 39,066,373
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	\$ 169,890,978
Accumulated depreciation is the following	<u>(42,849,706)</u>
Net Capital Assets	127,041,272
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.	
	(696,114)
Deferred charges on refunding (the difference between the reacquisition price and net carrying amount of refunded debt) are capitalized and amortized over the remaining life of the new or old debt (whichever is shorter) and are included with governmental activities.	
	15,256,267
Deferred outflows of resources related to pensions represent a consumption of net position in a future period and is not reported in the District's funds. Deferred outflows of resources related to pensions at year-end consist of:	
Pension contributions subsequent to measurement date	5,678,899
Net change in proportionate share of net pension liability	4,100,078
Difference between projected and actual earnings on pension plan investments	535,866
Differences between expected and actual experience in the measurement of the total pension liability.	751,290
Changes of assumptions	<u>12,097,915</u>
Total Deferred Outflows of Resources Related to Pensions	23,164,048
Deferred inflows of resources related to pensions represent an acquisition of net position that applies to a future period and is not reported in the District's funds. Deferred inflows of resources related to pensions at year-end consist of:	
Net change in proportionate share of net pension liability	(853,534)
Difference between projected and actual earnings on pension plan investments	(1,413,896)
Differences between expected and actual experience in the measurement of the total pension liability.	(925,951)
Changes of assumptions	<u>(182,382)</u>
Total Deferred Inflows of Resources Related to Pensions	(3,375,763)

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, 2018**

Deferred outflows of resources related to OPEB represent a consumption of net position in a future period and is not reported in the District's funds. Deferred outflows of resources related to OPEB at year-end consist of amounts paid by the District for OPEB as the benefits come due subsequent to the measurement date.	\$	533,963
Net pension liability is not due and payable in the current period, and is not reported as a liability in the funds.		(68,579,110)
Long-term obligations are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.		
Long-term obligations at year end consist of:		
General obligation bonds	\$	52,354,571
Premium on issuance of general obligation bonds		3,351,345
Certificates of participation		25,610,587
Premium on issuance of certificates of participation		674,800
Accumulated vacation		295,037
Capital lease		530,238
Qualified Zone Academy Bond (QZAB)		5,000,000
Net other postemployment benefits (OPEB) liability		11,437,047
In addition, the District has issued 'capital appreciation' general obligation bonds and 'capital appreciation' certificates of participation. The accretion of interest unmatured on the general obligation bonds and certificates of participation to date is:		8,525,077
Total Long-Term Obligations		(107,778,702)
Total Net Position - Governmental Activities	\$	24,632,234

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, 2018**

	General Fund	Capital Facilities Fund	County School Facilities Fund
REVENUES			
Local Control Funding Formula	\$ 53,430,363	\$ -	\$ -
Federal sources	2,896,435	-	-
Other State sources	5,958,430	-	2,515,330
Other local sources	5,185,900	2,787,306	19,485
Total Revenues	67,471,128	2,787,306	2,534,815
EXPENDITURES			
Current			
Instruction	43,276,552	-	-
Instruction-related activities:			
Supervision of instruction	944,290	-	-
Instructional library, media, and technology	1,270,521	-	-
School site administration	3,412,092	-	-
Pupil services:			
Home-to-school transportation	1,353,535	-	-
Food services	-	-	-
All other pupil services	3,155,522	-	-
Administration:			
Data processing	425,524	-	-
All other administration	3,006,476	28,820	-
Plant services	5,126,833	23,243	-
Community services	244,664	-	-
Other outgo	-	-	-
Enterprise services	8,581	-	-
Facility acquisition and construction	95,626	1,027,379	1,290,029
Debt service			
Principal	-	-	-
Interest and other	-	-	-
Total Expenditures	62,320,216	1,079,442	1,290,029
Excess (Deficiency) of Revenues Over (Under) Expenditures	5,150,912	1,707,864	1,244,786
Other Financing Sources (Uses)			
Transfers in	20,170	397,444	-
Other sources	-	-	-
Transfers out	(2,862,748)	(370,741)	-
Other uses	(43,385)	-	-
Net Financing Sources (Uses)	(2,885,963)	26,703	-
NET CHANGE IN FUND BALANCES	2,264,949	1,734,567	1,244,786
Fund Balances - Beginning	17,648,052	3,559,865	-
Fund Balances - Ending	\$ 19,913,001	\$ 5,294,432	\$ 1,244,786

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

Special Reserve Fund for Capital Outlay Projects	Debt Service Fund for Blended Component Units	Non-Major Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 535,000	\$ 53,965,363
-	-	1,814,191	4,710,626
-	-	441,914	8,915,674
103,556	5,804	3,313,815	11,415,866
<u>103,556</u>	<u>5,804</u>	<u>6,104,920</u>	<u>79,007,529</u>
-	-	230,261	43,506,813
-	-	24,199	968,489
-	-	6,208	1,276,729
-	-	-	3,412,092
-	-	-	1,353,535
-	-	2,446,505	2,446,505
-	-	-	3,155,522
-	-	-	425,524
-	-	137,298	3,172,594
586,718	-	628,517	6,365,311
-	-	-	244,664
750	24,355	256,639	281,744
-	-	-	8,581
770,528	-	214,915	3,398,477
131,070	530,000	1,555,976	2,217,046
7,069	1,008,188	887,850	1,903,107
<u>1,496,135</u>	<u>1,562,543</u>	<u>6,388,368</u>	<u>74,136,733</u>
<u>(1,392,579)</u>	<u>(1,556,739)</u>	<u>(283,448)</u>	<u>4,870,796</u>
1,729,781	1,533,489	198,877	3,879,761
344,296	-	12,179,450	12,523,746
(228,658)	-	-	(3,462,147)
-	-	(11,922,811)	(11,966,196)
<u>1,845,419</u>	<u>1,533,489</u>	<u>455,516</u>	<u>975,164</u>
452,840	(23,250)	172,068	5,845,960
3,969,822	5,169,853	2,872,821	33,220,413
<u>\$ 4,422,662</u>	<u>\$ 5,146,603</u>	<u>\$ 3,044,889</u>	<u>\$ 39,066,373</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, 2018

Total Net Change in Fund Balances - Governmental Funds		\$ 5,845,960
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	\$ 3,881,763	
Depreciation expense	<u>(3,594,421)</u>	
Net expense adjustment		287,342
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.		(344,296)
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 earned was more than the amounts used by \$56,837.		(56,837)
In the governmental funds, pension costs are based on employer contributions made to pension plans during the year. However, in the Statement of Activities, pension expense is the net effect of all changes in the deferred outflows, deferred inflows and net pension liability during the year.		(1,796,318)
In the governmental funds, OPEB costs are based on employer contributions made to OPEB plans during the year. However, in the Statement of Activities, OPEB expense is the net effect of all changes in the deferred outflows, deferred inflows and net OPEB liability during the year.		142,399
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	12,795,976	
Certificates of participation	530,000	
Capital leases	<u>131,070</u>	
Combined adjustment		13,457,046

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, 2018

Proceeds received from issuance of debt is a revenue in the governmental funds, but it increases long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities. This year the District issued the following debt:

General obligation bonds	\$ (10,750,000)
--------------------------	-----------------

Governmental funds report the effects of premiums and deferred charges on a refunding when the debt is first issued, whereas the amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of this related item:

Premium on issuance	\$ (1,429,450)
Deferred amount on refunding	<u>521,477</u>
Combined adjustment	(907,973)

Under the modified basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the Statement of Activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. This adjustment combines the net changes of the following balances:

Amortization of debt premium	354,012
Amortization of deferred charge on refunding	<u>(602,415)</u>
Combined adjustment	(248,403)

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 \$43,414, and second, general obligation bonds and certificates of participation reported an additional \$1,878,508 of accreted interest in the current fiscal year.

	<u>(1,835,094)</u>
Change in Net Position of Governmental Activities	<u><u>\$ 3,793,826</u></u>

SANTEE SCHOOL DISTRICT

**PROPRIETARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2018**

	<u>Business-Type Activities</u> <u>Enterprise Fund</u>
ASSETS	
Current Assets	
Deposits and investments	\$ 2,167,016
Receivables	49,175
Due from other funds	23,289
Total Assets	<u>2,239,480</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources related to net other postemployment benefits (OPEB) liability	38,847
Deferred outflows of resources related to pensions	1,245,405
Total Deferred Outflows of Resources	<u>1,284,252</u>
LIABILITIES	
Current Liabilities	
Accounts payable	76,242
Due to other funds	653,108
Total Current Liabilities	<u>729,350</u>
Noncurrent Liabilities	
Net OPEB liability	800,156
Aggregate net pension liability	2,996,675
Total Noncurrent Liabilities	<u>3,796,831</u>
Total Liabilities	<u>4,526,181</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to pensions	43,928
NET POSITION	
Unrestricted (Deficit)	<u>\$ (1,046,377)</u>

SANTEE SCHOOL DISTRICT

PROPRIETARY FUNDS

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018**

	Business-Type Activities Enterprise Fund
OPERATING REVENUES	
Local and intermediate sources	\$ 3,507,220
OPERATING EXPENSES	
Payroll costs	2,776,886
Supplies and materials	155,826
Facility rent	19,382
Other operating cost	284,482
Total Operating Expenses	3,236,576
Operating Income	270,644
NONOPERATING REVENUES	
Interest income	27,373
Income Before Transfers	298,017
Transfers out	(417,614)
Change in Net Position	(119,597)
Total Net Position - Beginning, as Restated	(926,780)
Total Net Position - Ending	\$ (1,046,377)

SANTEE SCHOOL DISTRICT

PROPRIETARY FUNDS STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2018

	Business-Type Activities
	Enterprise Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from user charges	\$ 3,878,046
Cash payments to employees for services	(2,530,027)
Cash payments to suppliers for goods and services	(155,826)
Cash payments for facility use	(19,382)
Cash payments for other operating expenses	(274,943)
Net Cash Provided by Operating Activities	<u>897,868</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Transfers out to other funds	<u>(417,614)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	<u>27,373</u>
Net Increase in Cash and Cash Equivalents	507,627
Cash and Cash Equivalents - Beginning	1,659,389
Cash and Cash Equivalents - Ending	<u><u>\$ 2,167,016</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ 270,644
Changes in assets and liabilities:	
Receivables	(7,468)
Due from other fund	(11,338)
Deferred outflows of resources related to net OPEB liability	(38,847)
Deferred outflows of resources related to pensions	(378,286)
Accounts payable	9,539
Due to other fund	389,632
Net OPEB liability	30,435
Aggregate net pension liability	662,421
Deferred inflows of resources related to pensions	(28,864)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 897,868</u></u>

SANTEE SCHOOL DISTRICT

**FIDUCIARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2018**

	<u>Agency Funds</u>
ASSETS	
Deposits and investments	\$ 15,167
LIABILITIES	
Due to student groups	\$ 15,167

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

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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 \$2,976,374.

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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 approval (*Education Code* Sections 17620-17626 and *Government Code* Section 65995 et seq.). Expenditures are restricted to the purposes specified in *Government Code* Sections 65970-65981 or to the items specified in agreements with the developer (*Government Code* Section 66006).

County School Facilities Fund The County School Facilities Fund is established pursuant to *Education Code* Section 17070.43 to receive apportionments from the 1998 State School Facilities Fund (Proposition 1A), the 2002 State School Facilities Fund (Proposition 47), the 2004 State School Facilities Fund (Proposition 55), the 2006 State School Facilities Fund (Proposition 1D), or the 2016 State School Facilities Fund (Proposition 51) authorized by the State Allocation Board for new school facility construction, modernization projects, and facility hardship grants, as provided in the Leroy F. Greene School Facilities Act of 1998 (*Education Code* Section 17070 et seq.).

Special Reserve Fund for Capital Outlay Projects 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 used to account for the proceeds from specific revenue sources (other than trusts, major capital projects, or debt service) that are restricted or committed to the financing of particular activities, that compose a substantial portion of the inflows of the fund, and that are reasonably expected to continue. 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).

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).

Debt Service Funds The Debt Service funds are used to account for the accumulation of 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).

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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 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.

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

Governmental Funds All governmental funds are accounted for using the flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund 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.

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

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

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable, and typically paid within 90 days. Principal and interest on long-term obligations, which has not matured, are recognized when paid in the governmental funds as expenditures. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds, but are recognized in the 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, 2018, 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 (Expenses)

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.

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Capital Assets and Depreciation

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

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

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". These amounts are eliminated in the governmental and business-type activities columns of the statement of net position, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Compensated Absences

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

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

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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.

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 deferred charges on refunding of debt, for pension related items, and for OPEB related items.

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

Pensions

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

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District Plan and the CalSTRS Medicare Premium Payment (MPP) Program and additions to/deductions from the District Plan and the MPP's fiduciary net position have been determined on the same basis as they are reported by the District Plan and the MPP. For this purpose, the District Plan and the MPP recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

Fund Balances - Governmental Funds

As of June 30, 2018, fund balances of the governmental funds are classified as follows:

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

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

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

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.

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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 \$14,317,146 of restricted net position.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are charges for services related to the Project SAFE and YALE program. 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.

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.

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.

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Change in Accounting Principles

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. 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 District has implemented the provisions of this Statement as of June 30, 2018.

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 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; and
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

The District has implemented the provisions of this Statement as of June 30, 2018.

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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 District has implemented the provisions of this Statement as of June 30, 2018.

New Accounting Pronouncements

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.

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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.

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

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

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The requirements of this Statement should be applied prospectively.

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2018, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 37,387,702
Business-type activities	2,167,016
Fiduciary funds	15,167
Total Deposits and Investments	<u><u>\$ 39,569,885</u></u>

Deposits and investments as of June 30, 2018, consisted of the following:

Cash on hand and in banks	\$ 1,031,969
Cash in revolving	20,000
Investments	38,517,916
Total Deposits and Investments	<u><u>\$ 39,569,885</u></u>

Policies and Practices

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

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

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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.

SANTEE SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

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:

Investment Type	Reported Amount	Maturity Date/ Weighted Average Maturity in Days
U.S. Treasuries	\$ 4,701,107	11/15/2020
Certificates of Deposit - UBS Bank	204,000	6/15/2020
Certificates of Deposit - Goldman Sachs Bank	230,000	3/23/2020
Wells Fargo 100% Treasury Money Market Fund	327	38
Wells Fargo Government Money Market Fund	3,280	35
JP Morgan U.S. Government Money Market Fund	7,889	25
San Diego County Treasury Investment Pool	33,371,313	345
Total	<u>\$ 38,517,916</u>	

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. Presented below is the minimum rating required by the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of the year end for each investment type.

Investment Type	Minimum Legal Rating	Moody's / Fitch Rating June 30, 2018	Reported Amount
U.S. Treasuries	Not Required	Not rated	\$ 4,701,107
UBS Bank Certificates of Deposit	Not Required	Not rated	204,000
Goldman Sachs Bank Certificates of Deposit	Not Required	Not rated	230,000
Wells Fargo 100% Treasury Money Market Fund	Not Required	Aaa-mf	327
Wells Fargo Government Money Market Fund	Not Required	Aaa-mf	3,280
JP Morgan U.S. Government Money Market Fund	Not Required	Aaa-mf	7,889
San Diego County Investment Pool	Not Required	AAAf/S1	33,371,313
Total Investments			<u>\$ 38,517,916</u>

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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, 2018, the District was exposed to \$505,737 of custodial credit risk, as these funds were uninsured and not collateralized.

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.

SANTEE SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

The District's fair value measurements are as follows at June 30, 2018:

Investment Type	Reported Amount	Fair Value Measurements Using		
		Level 1 Inputs	Level 2 Inputs	Uncategorized
U.S. Treasuries	\$ 4,701,107	\$ 4,701,107	\$ -	\$ -
Certificates of Deposit - UBS Bank	204,000	-	204,000	-
Certificates of Deposit - Goldman Sachs Bank	230,000	-	230,000	-
Wells Fargo 100% Treasury Money Market Fund	327	327	-	-
Wells Fargo Government Money Market Fund	3,280	3,280	-	-
JP Morgan U.S. Government Money Market Fund	7,889	7,889	-	-
San Diego County Investment Pool	33,371,313	-	-	33,371,313
Total	\$ 38,517,916	\$ 4,712,603	\$ 434,000	\$ 33,371,313

All assets were valued using a market approach.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2018, consisted of intergovernmental grants, entitlements, interest, and other local sources. All receivables are considered collectible in full.

	General Fund	Capital Facilities Fund	County School Facilities Fund	Special Reserve		Total Governmental Activities	Enterprise Fund
				Fund for Capital Outlay Projects	Non-Major Governmental Funds		
Federal Government							
Categorical aid	\$ 1,464,549	\$ -	\$ -	\$ -	\$ 70,959	\$ 1,535,508	\$ -
State Government							
Categorical aid	82,407	-	-	-	60,749	143,156	-
Lottery	270,858	-	-	-	-	270,858	-
Local Government							
Interest	84,272	15,450	11,545	20,655	1,705	133,627	8,981
Other local sources	314,760	-	-	-	177	314,937	40,194
Total	\$ 2,216,846	\$ 15,450	\$ 11,545	\$ 20,655	\$ 133,590	\$ 2,398,086	\$ 49,175

SANTEE SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 5 - CAPITAL ASSETS

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

	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 8,547,242	\$ -	\$ -	\$ 8,547,242
Construction in progress	15,850,327	2,919,706	3,371,235	15,398,798
Total Capital Assets Not Being Depreciated	<u>24,397,569</u>	<u>2,919,706</u>	<u>3,371,235</u>	<u>23,946,040</u>
Capital Assets Being Depreciated				
Land improvements	4,352,409	1,293,637	-	5,646,046
Buildings and improvements	128,779,648	2,090,995	-	130,870,643
Furniture and equipment	8,479,589	948,660	-	9,428,249
Total Capital Assets Being Depreciated	<u>141,611,646</u>	<u>4,333,292</u>	<u>-</u>	<u>145,944,938</u>
Total Capital Assets	<u>166,009,215</u>	<u>7,252,998</u>	<u>3,371,235</u>	<u>169,890,978</u>
Less Accumulated Depreciation				
Land improvements	3,090,704	132,210	-	3,222,914
Buildings and improvements	30,006,833	3,032,059	-	33,038,892
Furniture and equipment	6,157,748	430,152	-	6,587,900
Total Accumulated Depreciation Governmental Activities	<u>39,255,285</u>	<u>3,594,421</u>	<u>-</u>	<u>42,849,706</u>
Capital Assets, Net	<u>\$ 126,753,930</u>	<u>\$ 3,658,577</u>	<u>\$ 3,371,235</u>	<u>\$ 127,041,272</u>

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

Governmental Activities	
Instruction	\$ 1,002,837
Instructional library, media, and technology	581,722
School site administration	140,439
Home-to-school transportation	83,131
Food services	252,270
All other pupil services	57,168
All other administration	113,634
Data processing	226,986
Plant services	1,136,234
Total Depreciation Expenses Governmental Activities	<u>\$ 3,594,421</u>

SANTEE SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

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, 2018, between major and non-major governmental funds and non-major enterprise funds are as follows:

Due To	Due From				Total
	General Fund	County School Facilities Fund	Non-Major Governmental Funds	Enterprise Fund	
General Fund	\$ -	\$ -	\$ 173,626	\$ 255,664	\$ 429,290
Capital Facilities Fund	-	1,287,002	-	397,444	1,684,446
Special Reserve Fund for Capital Outlay Projects	20,000	-	39,500	-	59,500
Non-Major Governmental Funds	198,894	-	-	-	198,894
Enterprise Fund	23,289	-	-	-	23,289
Total	\$ 242,183	\$ 1,287,002	\$ 213,126	\$ 653,108	\$ 2,395,419

The balance of \$20,000 is due to the Special Reserve Fund for Capital Outlay Projects from the General Fund for turf replacement costs.

A balance of \$196,648 is due to the Deferred Maintenance Non-Major Governmental Fund from the General Fund for HVAC replacement costs.

The balance of \$397,444 is due to the Capital Facilities Fund from the Enterprise Fund for construction costs of portable buildings.

A balance of \$37,883 is due to the General Fund from the Child Development Non-Major Governmental Fund for indirect costs, other postemployment benefits, and miscellaneous expenses.

A balance of \$135,743 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 \$1,287,002 is due to the Capital Facilities Fund from the County School Facilities Funds for construction costs of portable buildings.

The balance of \$255,664 is due to the General Fund from the Enterprise Fund for indirect costs, other postemployment benefits, and portable buildings costs.

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

SANTEE SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

Operating Transfers

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

Transfer To	Transfer From				Total
	General Fund	Capital Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Enterprise Funds	
General Fund	\$ -	\$ -	\$ -	\$ 20,170	\$ 20,170
Capital Facilities Fund	-	-	-	397,444	397,444
Special Reserve Fund for Capital Outlay Projects	1,729,781	-	-	-	1,729,781
Debt Service Fund for Blended Component Units	934,090	370,741	228,658	-	1,533,489
Non-Major Governmental Funds	198,877	-	-	-	198,877
Total	\$ 2,862,748	\$ 370,741	\$ 228,658	\$ 417,614	\$ 3,879,761

The General Fund transferred to the Cafeteria Non-Major Governmental Fund for unpaid student meal accounts.	\$ 2,229
The Enterprise Fund transferred to the General Fund for portable buildings costs.	20,170
The Enterprise Fund transferred to the Capital Facilities Fund for reimbursement of portable buildings costs.	397,444
The General Fund transferred to the Deferred Maintenance Non-Major Governmental Fund for reimbursement of HVAC replacement costs.	196,648
The General Fund transferred to the Special Reserve Fund for Capital Outlay Projects for technology, bus, and facilities needs reserves.	1,729,781
The General Fund transferred to the Debt Service Fund for Blended Component Units for debt service payments.	934,090
The Capital Facilities Fund transferred to the Debt Service Fund for Blended Component Units for debt service payments.	370,741
The Special Reserve Fund for Capital Outlay Projects transferred to the Debt Service Fund for Blended Component Units for debt service payments.	228,658
Total	\$ 3,879,761

SANTEE SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 7 - ACCOUNTS PAYABLE

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

	General Fund	Capital Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total Governmental Activities	Enterprise Fund
Vendor payables	\$ 310,371	\$ 286,296	\$ 7,421	\$ 132,625	\$ 736,713	\$ 14,943
State apportionment	215,783	-	-	-	215,783	-
Salaries and benefits	739,969	-	-	13,263	753,232	61,299
Total	<u>\$ 1,266,123</u>	<u>\$ 286,296</u>	<u>\$ 7,421</u>	<u>\$ 145,888</u>	<u>\$ 1,705,728</u>	<u>\$ 76,242</u>

NOTE 8 - UNEARNED REVENUE

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

	General Fund
State categorical aid	\$ 1,998
Other local assistance	172,245
Total	<u>\$ 174,243</u>

SANTEE SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 9 - LONG-TERM OBLIGATIONS

Summary

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

	(as Restated)				
	Balance			Balance	Due in
	July 1, 2017	Additions	Deductions	June 30, 2018	One Year
Governmental Activities					
General Obligation Bonds	\$ 61,136,155	\$ 12,539,469	\$ 12,795,976	\$ 60,879,648	\$ 1,483,677
Premium on issuance	2,248,915	1,429,450	327,020	3,351,345	-
Certificates of Participation	26,051,548	89,039	530,000	25,610,587	570,000
Premium on issuance	701,792	-	26,992	674,800	-
Accumulated Vacation - net	238,200	56,837	-	295,037	-
Capital Leases	317,012	344,296	131,070	530,238	122,604
Qualified Zone Academy Bond	5,000,000	-	-	5,000,000	-
Net other postemployment benefits (OPEB) liability	11,045,483	1,033,080	641,516	11,437,047	-
	<u>\$ 106,739,105</u>	<u>\$ 15,492,171</u>	<u>\$ 14,452,574</u>	<u>\$ 107,778,702</u>	<u>\$ 2,176,281</u>
Business-Type Activities					
Net other postemployment benefits (OPEB) liability	<u>\$ 769,721</u>	<u>\$ 75,159</u>	<u>\$ 44,724</u>	<u>\$ 800,156</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 net other postemployment benefits (OPEB) liability are made by the fund for which the employee worked. 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, 2018**

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds			Bonds	
				Outstanding July 1, 2017	Issued	Accretion	Redeemed	Outstanding June 30, 2018
04/17/07	08/01/17	3.50-5.00%	\$ 18,000,000	\$ 325,000	\$ -	\$ -	\$ 325,000	\$ -
08/20/08	08/01/48	4.00-5.00%	12,385,077	11,752,748	-	36,521	11,430,000	359,269
08/20/08	08/01/33	3.01-5.90%	2,869,039	3,959,094	-	207,868	185,000	3,981,962
08/20/08	08/01/48	5.90-6.20%	7,840,155	6,264,212	-	401,417	-	6,665,629
05/01/11	05/01/51	6.90-8.10%	3,534,307	2,587,814	-	229,823	-	2,817,637
12/30/15	08/01/40	3.00-5.00%	26,715,104	26,795,365	-	465,992	498,516	26,762,841
02/03/16	08/01/45	4.71%	9,025,022	9,451,922	-	447,848	92,460	9,807,310
07/25/17	08/01/48	2.00-5.00%	10,750,000	-	10,750,000	-	265,000	10,485,000
				<u>\$ 61,136,155</u>	<u>\$ 10,750,000</u>	<u>\$ 1,789,469</u>	<u>\$ 12,795,976</u>	<u>\$ 60,879,648</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 Election 2006 General Obligation 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, 2018, the principal and unamortized premium balance outstanding has been paid off.

In August 2008, the District issued \$12,385,077 of Election 2006 General Obligation 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, 2018, the principal balance outstanding was \$359,269 and unamortized premium was \$17,926.

In August 2008, the District issued \$2,869,039 of Election 2006 General Obligation 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, 2018, the principal balance outstanding was \$3,981,962 and unamortized premium was \$44,760.

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

In August 2008, the District issued \$7,840,155 of Election 2006 General Obligation 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, 2018, the principal balance outstanding was \$6,665,629 and unamortized premium was \$163,200.

In May 2011, the District issued \$3,534,307 of 2011 General Obligation 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, 2018, the principal balance outstanding was \$2,817,637 and unamortized premium was \$316,069.

In December 2015, the District issued \$26,715,104 of General Obligation Refunding Bonds, Series 2015. 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, 2018, the principal balance outstanding was \$26,762,841 and unamortized premium was 1,424,620.

In February 2016, the District issued \$9,025,022 of General Obligation Refunding Bonds, Series 2016A. 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, 2018, the principal balance outstanding was \$9,807,310.

In July 2017, the District issued \$10,750,000 of General Obligation Refunding Bonds, Series 2017. The proceeds were used to refund portions of the Series B 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 refunding resulted in a cumulative cash flow savings of \$2,750,656 over the life of the new debt and an economic gain of \$1,621,320 based on the difference between the present value of the existing debt service requirements and the new debt service requirements discounted at 14.42 percent. The bonds mature each August 1 through August 30, with the final maturity payment being made on August 1, 2048. At June 30, 2018, the principal balance outstanding was \$10,485,000 and unamortized premium was \$1,384,770.

SANTEE SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

Debt Service Requirements to Maturity

The bonds mature through 2051 as follows:

Fiscal Year	Principal Including Accreted Interest to Date	Accreted Interest to Maturity	Current Interest to Maturity	Total
2019	\$ 1,462,952	\$ 20,725	\$ 1,095,925	\$ 2,579,602
2020	1,530,390	63,292	1,072,650	2,666,332
2021	1,630,535	87,398	1,039,800	2,757,733
2022	1,725,932	127,426	997,625	2,850,983
2023	1,838,086	167,298	948,575	2,953,959
2024-2028	11,046,077	1,561,753	3,903,213	16,511,043
2029-2033	13,224,518	4,697,834	2,223,850	20,146,202
2034-2038	9,449,411	14,115,068	1,394,516	24,958,995
2039-2043	9,682,620	19,565,715	1,153,716	30,402,051
2044-2048	7,562,354	16,473,259	569,250	24,604,863
2049-2051	1,726,773	9,995,976	17,500	11,740,249
Total	<u>\$ 60,879,648</u>	<u>\$ 66,875,744</u>	<u>\$ 14,416,620</u>	<u>\$ 142,172,012</u>

Certificates of Participation

The certificates of participation are as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Certificates of Participation				Certificates of Participation Outstanding June 30, 2018
				Outstanding July 1, 2017	Issued	Accretion	Redeemed	
09/24/08	10/01/31	3.25-5.75%	\$ 23,699,849	\$ 1,736,548	\$ -	\$ 89,039	\$ 120,000	\$ 1,705,587
06/02/10	06/01/25	2.315-7.160%	2,260,000	1,275,000	-	-	145,000	1,130,000
12/22/15	10/01/42	3.00-5.00%	23,240,000	23,040,000	-	-	265,000	22,775,000
				<u>\$ 26,051,548</u>	<u>\$ -</u>	<u>\$ 89,039</u>	<u>\$ 530,000</u>	<u>\$ 25,610,587</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, 2018, was \$1,705,587.

SANTEE SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

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, 2018, was \$1,130,000.

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, 2018, was \$22,775,000 and unamortized premium of \$674,800.

Payments are required as follows:

Fiscal Year	Principal Including Accreted Interest to Date	Accreted Interest to Maturity	Current Interest to Maturity	Total
2019	\$ 570,000	\$ -	\$ 982,290	\$ 1,552,290
2020	610,000	-	952,050	1,562,050
2021	650,000	-	918,597	1,568,597
2022	705,000	-	882,585	1,587,585
2023	755,000	-	843,554	1,598,554
2024-2028	3,500,415	529,585	3,700,040	7,730,040
2029-2033	4,075,172	669,828	3,186,325	7,931,325
2034-2038	6,270,000	-	2,324,094	8,594,094
2039-2043	8,475,000	-	888,500	9,363,500
Total	\$ 25,610,587	\$ 1,199,413	\$ 14,678,035	\$ 41,488,035

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2018, amounted to \$295,037.

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Capital Leases

The District has entered into agreements to lease school buses. 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, 2017	\$ 334,880
Additions	380,933
Payments	138,139
Balance, July 1, 2018	<u>\$ 577,674</u>

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2019	\$ 138,139
2020	138,139
2021	138,139
2022	54,419
2023	54,419
2024	54,419
Total	<u>577,674</u>
Less: Amount Representing Interest	47,436
Present Value of Minimum Lease Payments	<u>\$ 530,238</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, 2018, Chase Bank held \$4,708,996 for payment of principal.

SANTEE SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

Net Other Postemployment Benefits (OPEB) Liability

For the fiscal year ended June 30, 2018, the District reported net OPEB liability, deferred outflows of resources, and OPEB expense for the following plans:

OPEB Plan	Net OPEB Liability	Deferred Outflows of Resources	OPEB Expense
District Plan	\$ 11,798,516	\$ 572,810	\$ 448,764
Medicare Premium Payment (MPP) Program	438,687	-	(26,765)
Total	\$ 12,237,203	\$ 572,810	\$ 421,999

The details of each plan are as follows:

District Plan

Plan Administration

The District's governing board administers the Postemployment Benefits Plan (the Plan). The Plan is a single-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB) for eligible retirees and their spouses. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

Plan Membership

At June 30, 2017, the Plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits payments	70
Active employees	605
	675

Benefits Provided

The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Benefits are provided through a third-party insurer, and the full cost of benefits is covered by the Plan. The District's governing board has the authority to establish and amend the benefit terms as contained within the negotiated labor agreements.

The benefit payment requirements of the Plan members and the District are established and may be amended by the District, the Santee Teacher's Association (STA), the local California Service Employees Association (CSEA), and unrepresented groups. The benefit payment is based on projected pay-as-you-go financing requirements as determined annually through agreements with the District, STA, CSEA, and the unrepresented groups. For fiscal year 2017-2018, the District paid \$572,810 in benefits.

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Total OPEB Liability of the District

The District's total OPEB liability of \$11,798,516 was measured as of June 30, 2017, and the total OPEB liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75 percent
Salary increases	3.00 percent, average, including inflation
Discount rate	3.40 percent
Health care cost trend rates	6.00 percent for 2017

The discount rate was based on the Bond Buyer 20-bond General Obligation Index.

Mortality rates were based on the 2009 CalSTRS Mortality Table for certificated employees and the 2014 CalPERS Active Mortality for Miscellaneous Employees Table for classified employees. Mortality rates vary by age and sex. (Unisex mortality rates are not often used as individual OPEB benefits do not depend on the mortality table used.) If employees die prior to retirement, past contributions are available to fund benefits for employees who live to retirement. After retirement, death results in benefit termination or reduction. Although higher mortality rates reduce service costs, the mortality assumption is not likely to vary from employer to employer.

The actual assumptions used in the June 30, 2017 valuation were based on the results of an actual experience study for the period July 1, 2016 to June 30, 2017.

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at June 30, 2016	\$ 11,349,752
Service cost	709,438
Interest	398,801
Benefit payments	(659,475)
Net change in total OPEB liability	448,764
Balance at June 30, 2017	\$ 11,798,516

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

The following presents the total OPEB liability of the District, as well as what the District's total OPEB 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>Total OPEB Liability</u>
1% decrease (2.4%)	\$ 12,554,495
Current discount rate (3.4%)	11,798,516
1% increase (4.4%)	11,080,156

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percent lower or higher than the current healthcare costs trend rates:

<u>Healthcare Cost Trend Rates</u>	<u>Total OPEB Liability</u>
1% decrease (5.0%)	\$ 10,747,890
Current healthcare cost trend rate (6.0%)	11,798,516
1% increase (7.0%)	13,006,931

OPEB Expense and Deferred Outflows of Resources Related to OPEB

For the year ended June 30, 2018, the District recognized OPEB expense of \$448,764. At June 30, 2018, the District reported deferred outflows of resources for the amount paid by the District for OPEB as the benefits come due subsequent to measurement date of \$572,810, which will be reported as a reduction to the total OPEB liability in the subsequent fiscal year.

Medicare Premium Payment (MPP) Program

Plan Description

The Medicare Premium Payment (MPP) Program is administered by the California State Teachers' Retirement System (CalSTRS). The MPP Program is a cost-sharing multiple-employer other postemployment benefit plan (OPEB) established pursuant to Chapter 1032, Statutes 2000 (SB 1435). CalSTRS administers the MPP Program through the Teachers' Health Benefits Fund (THBF).

A full description of the MPP Program regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2016 annual actuarial valuation report, Medicare Premium Payment Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/member-publications>.

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Benefits Provided

The MPP Program pays Medicare Part A premiums and Medicare Parts A and B late enrollment surcharges for eligible members of the State Teachers Retirement Plan (STRP) Defined Benefit (DB) Program who were retired or began receiving a disability allowance prior to July 1, 2012 and were not eligible for premium free Medicare Part A. The payments are made directly to the Centers for Medicare and Medicaid Services (CMS) on a monthly basis.

The MPP Program is closed to new entrants as members who retire after July 1, 2012, are not eligible for coverage under the MPP Program.

The MPP Program is funded on a pay-as-you go basis from a portion of monthly District benefit payments. In accordance with California *Education Code* Section 25930, benefit payments that would otherwise be credited to the DB Program each month are instead credited to the MPP Program to fund monthly program and administrative costs. Total redirections to the MPP Program are monitored to ensure that total incurred costs do not exceed the amount initially identified as the cost of the program.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the OPEB

At June 30, 2018, the District reported a liability of \$438,687 for its proportionate share of the net OPEB liability for the MPP Program. The net OPEB liability was measured as of June 30, 2016, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB Plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2017 and June 30, 2016, was 0.1043 percent and 0.0995, respectively, resulting in a net increase in the proportionate share of 0.0048 percent.

For the year ended June 30, 2018, the District recognized OPEB expense of \$(26,765).

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Actuarial Methods and Assumptions

The total OPEB liability for the MPP Program as of June 30, 2016, was determined based on a financial reporting actuarial valuation that used the June 30, 2016 assumptions presented in the table below. The June 30, 2017 total OPEB liability was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total OPEB liability to June 30, 2017, using the assumptions listed in the following table:

Measurement Date	June 30, 2017	June 30, 2016
Valuation Date	June 30, 2016	June 30, 2016
Experience Study	July 1, 2010 through June 30, 2016	July 1, 2010 through June 30, 2015
Actuarial Cost Method	Entry age normal	Entry age normal
Investment Rate of Return	3.58%	2.85%
Medicare Part A Premium Cost Trend Rate	3.70%	3.70%
Medicare Part B Premium Cost Trend Rate	4.10%	4.10%

For the valuation as of June 30, 2016, CalSTRS used custom mortality tables based on RP2000 Series tables issued by the Society of Actuaries, adjusted to fit CalSTRS specific experience through June 30, 2015. For the valuation as of June 30, 2017, CalSTRS changed the mortality assumptions based on the July 1, 2010 through June 30, 2015, experience study adopted by the board in February 2017. CalSTRS now uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among the members. The projection scale was set equal to 110 percent of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table, issued by the Society of Actuaries.

Assumptions were made about future participation (enrollment) into the MPP Program because CalSTRS is unable to determine which members not currently participating meet all eligibility criteria for enrollment in the future. Assumed enrollment rates were derived based on past experience and are stratified by age with the probability of enrollment diminishing as the members' age increases. This estimated enrollment rate was then applied to the population of members who may meet criteria necessary for eligibility and are not currently enrolled in the MPP Program. Based on this, the estimated number of future enrollments used in the financial reporting valuation was 571 or an average of 0.32 percent of the potentially eligible population (177,763).

The MPP Program is funded on a pay-as-you-go basis with contributions generally being made at the same time and in the same amount as benefit payments and expenses coming due. Any funds within the MPP Program as of June 30, 2017 and 2016, were to manage differences between estimated and actual amounts to be paid and were invested in the Surplus Money Investment Fund, which is a pooled investment program administered by the State Treasurer.

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Discount Rate

The discount rate used to measure the total OPEB liability as of June 30, 2017 and 2016 was 3.58 percent and 2.85 percent, respectively. The MPP Program is funded on a pay-as-you-go basis as described in Note 1, and under the pay-as-you-go method, the OPEB Plan's fiduciary net position was not projected to be sufficient to make projected future benefit payments. Therefore, a discount rate of 3.58 percent and 2.85 percent, which is the Bond Buyer 20-Bond GO Index from Bondbuyer.com as of June 30, 2017 and 2016, respectively, was applied to all periods of projected benefit payments to measure the total OPEB liability.

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following presents the District's proportionate share of the net OPEB 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 OPEB Liability
1% decrease (2.58%)	\$ 485,657
Current discount rate (3.58%)	438,687
1% increase (4.58%)	392,999

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Medicare Costs Trend Rates

The following presents the District's proportionate share of the net OPEB liability calculated using the current Medicare costs trend rate, as well as what the net pension liability would be if it were calculated using Medicare costs trend rates that are one percent lower or higher than the current rates:

Medicare Costs Trend Rate	Net OPEB Liability
1% decrease (2.7% Part A and 3.1% Part B)	\$ 396,421
Current Medicare costs trend rate (3.7% Part A and 4.1% Part B)	438,687
1% increase (4.7% Part A and 5.1% Part B)	480,531

SANTEE SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 10 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Capital Facilities Fund	County School 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	88,850	-	-	-	-	66,018	154,868
Reserve for all others	375,869	-	-	-	-	-	375,869
Total Nonspendable	484,719	-	-	-	-	66,018	550,737
Restricted							
Legally restricted programs	394,089	-	-	-	-	533,891	927,980
Capital projects	-	5,294,432	1,244,786	-	-	-	6,539,218
Debt services	-	-	-	-	5,146,603	2,399,459	7,546,062
Total Restricted	394,089	5,294,432	1,244,786	-	5,146,603	2,933,350	15,013,260
Committed							
Deferred maintenance program	-	-	-	-	-	45,521	45,521
Assigned							
Site and department carryover	429,729	-	-	-	-	-	429,729
Capital projects	-	-	-	4,422,662	-	-	4,422,662
Vacation liability	295,037	-	-	-	-	-	295,037
Total Assigned	724,766	-	-	4,422,662	-	-	5,147,428
Unassigned							
Economic uncertainties	1,956,791	-	-	-	-	-	1,956,791
Remaining unassigned	16,352,636	-	-	-	-	-	16,352,636
Total Unassigned	18,309,427	-	-	-	-	-	18,309,427
Total	\$ 19,913,001	\$ 5,294,432	\$ 1,244,786	\$ 4,422,662	\$ 5,146,603	\$ 3,044,889	\$ 39,066,373

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 11 - RISK MANAGEMENT

Workers' Compensation

For fiscal year 2018, 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, 2018, the District was a member of the San Diego County Office of Education (SDCOE) Joint Powers Authority (JPA) for property and liability insurance coverage.

Employee Medical Benefits

The District has contracted with California Schools Employee Benefits Association (CSEBA) Joint Powers Authority (JPA) to provide employee health benefits. CSEBA is a non-profit risk sharing JPA providing comprehensive insurance programs to California public entities for medical, dental, vision, and life insurance benefits. The District pays a monthly contribution, which is placed in a common fund from which claim payments are made for all participating districts.

NOTE 12 - 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, 2018, the District reported net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense for each of the above plans as follows:

<u>Pension Plan</u>	<u>Collective Net Pension Liability</u>	<u>Collective Deferred Outflows of Resources</u>	<u>Collective Deferred Inflows of Resources</u>	<u>Collective Pension Expense</u>
CalSTRS	\$ 53,264,909	\$ 16,487,591	\$ 3,204,103	\$ 5,509,331
CalPERS	18,310,876	7,921,862	215,588	2,461,832
Total	<u>\$ 71,575,785</u>	<u>\$ 24,409,453</u>	<u>\$ 3,419,691</u>	<u>\$ 7,971,163</u>

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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, 2016, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/member-publications>.

Benefits Provided

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

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

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

SANTEE SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

The STRP provisions and benefits in effect at June 30, 2018, are summarized as follows:

	<u>STRP Defined Benefit Program</u>	
	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	14.43	14.43
Required State contribution rate	9.328	9.328

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, 2018, are presented above and the District's total contributions were \$4,308,452.

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	\$ 53,264,909
State's proportionate share of the net pension liability associated with the District	31,511,070
Total	<u><u>\$ 84,775,979</u></u>

The net pension liability was measured as of June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. The District's proportionate share for the measurement period June 30, 2017 and June 30, 2016, was 0.0576 percent and 0.0559 percent, respectively, resulting in a net increase in the proportionate share of 0.0017 percent.

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

For the year ended June 30, 2018, the District recognized pension expense of \$5,509,331. In addition, the District recognized pension expense and revenue of \$3,171,892 for support provided by the State. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 4,308,452	\$ -
Net change in proportionate share of net pension liability	2,114,214	856,485
Difference between projected and actual earnings on pension plan investments	-	1,418,592
Differences between expected and actual experience in the measurement of the total pension liability	196,979	929,026
Changes of assumptions	9,867,946	-
Total	<u>\$ 16,487,591</u>	<u>\$ 3,204,103</u>

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

The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ (1,179,329)
2020	892,404
2021	128,679
2022	(1,260,346)
Total	<u>\$ (1,418,592)</u>

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

The deferred outflows of resources related to the net change in proportionate share of net pension liability, differences between expected and actual experience in the measurement of the total pension liability, and changes of assumptions 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 June 30,	Deferred Outflows of Resources
2019	\$ 1,725,317
2020	1,725,317
2021	1,725,317
2022	1,725,322
2023	1,610,825
Thereafter	1,881,530
Total	<u>\$ 10,393,628</u>

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, 2016, and rolling forward the total pension liability to June 30, 2017. The financial reporting actuarial valuation as of June 30, 2016, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2016
Measurement date	June 30, 2017
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 a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among its members. The projection scale was set equal to 110 percent of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table, issued by the Society of Actuaries.

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant (Pension Consulting Alliance-PCA) as an input to the process. The actuarial investment rate of return assumption was adopted by the board in February 2017 in conjunction with the most recent experience study. For each future valuation, CalSTRS consulting actuary (Milliman) reviews the return assumption for reasonableness based on the most current capital market assumptions. Best estimates of 20-year geometrically-linked real rates of return and the assumed asset allocation for each major asset class for the year ended June 30, 2017, are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	47%	6.30%
Fixed income	12%	0.30%
Real estate	13%	5.20%
Private equity	13%	9.30%
Absolute Return/Risk Mitigating Strategies	9%	2.90%
Inflation sensitive	4%	3.80%
Cash liquidity	2%	-1.00%

Discount Rate

The discount rate used to measure the total pension liability was 7.10 percent. The projection of cash flows used to determine the discount rate assumed 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 (7.10 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 (6.10%)	\$ 78,209,796
Current discount rate (7.10%)	53,264,909
1% increase (8.10%)	33,020,442

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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, 2016, annual actuarial valuation report, Schools Pool Actuarial Valuation, and the Risk Pool Actuarial Valuation Report, Safety. These reports and CalPERS audited financial information are publicly 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, 2018, 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%	6.50%
Required employer contribution rate	15.531%	15.531%

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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, 2018, are presented above and the total District contributions were \$1,611,122.

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

As of June 30, 2018, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$18,310,876. The net pension liability was measured as of June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2017 and June 30, 2016, was 0.0767 percent and 0.0759 percent, respectively, resulting in a net increase in the proportionate share of 0.0008 percent.

For the year ended June 30, 2018, the District recognized pension expense of \$2,461,832. At June 30, 2018, 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	\$ 1,611,122	\$ -
Net change in proportionate share of net pension liability	2,346,714	-
Difference between projected and actual earnings on pension plan investments	633,431	-
Differences between expected and actual experience in the measurement of the total pension liability	656,004	-
Changes of assumptions	2,674,591	215,588
Total	<u>\$ 7,921,862</u>	<u>\$ 215,588</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.

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ (17,164)
2020	730,841
2021	266,620
2022	(346,866)
Total	<u>\$ 633,431</u>

The deferred outflows of resources related to the net change in proportionate share of net pension liability, differences between expected and actual experience in the measurement of the total pension liability, and changes of assumptions 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 of Resources
2019	\$ 2,087,630
2020	2,000,517
2021	1,373,574
Total	<u>\$ 5,461,721</u>

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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, 2016, and rolling forward the total pension liability to June 30, 2017. The financial reporting actuarial valuation as of June 30, 2016, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2016
Measurement date	June 30, 2016
Experience study	July 1, 1997 through June 30, 2011
Actuarial cost method	Entry age normal
Discount rate	7.15%
Investment rate of return	7.15%
Consumer price inflation	2.75%
Wage growth	Varies by entry age and service

The mortality table used was developed based on CalPERS-specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.

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+ 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 rounded 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 equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses. 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	47%	5.38%
Global debt securities	19%	2.27%
Inflation assets	6%	1.39%
Private equity	12%	6.63%
Real estate	11%	5.21%
Infrastructure and Forestland	3%	5.36%
Liquidity	2%	-0.90%

SANTEE SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

Discount Rate

The discount rate used to measure the total pension liability was 7.15 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 (6.15%)	\$ 26,941,167
Current discount rate (7.15%)	18,310,876
1% increase (8.15%)	11,151,328

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 \$2,562,534 (9.328 percent of annual payroll). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements.

NOTE 13 - 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, 2018.

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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, 2018. There are currently two pending threatened litigation cases against the District. The amount or potential range of loss is unknown at this time and therefore, such an estimate cannot be made.

NOTE 14 - PARTICIPATION IN JOINT POWERS AGENCY

The District is a member of the San Diego County Office of Education (SDCOE) Joint Powers Authority (JPA) and California School Employees Benefits Association (CSEBA) JPA. The District pays an annual premium to each entity for its workers' compensation, property liability, and health and welfare coverage. The relationship between the District and the JPAs are 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 respective entities.

During the year ended June 30, 2018, the District made payments of \$1,195,598 and \$4,477,282 to SDCOE JPA and CSEBA, respectively, for workers' compensation, property liability, and health and welfare coverage.

NOTE 15 - RESTATEMENT OF PRIOR YEAR NET POSITION

The District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in the current year. As a result, the effect on the current fiscal year is as follows:

Statement of Net Position - Governmental Activities

Net Position - Beginning	\$ 28,915,877
Inclusion of net OPEB liability from the adoption of GASB Statement No. 75	<u>(8,077,469)</u>
Net Position - Beginning as Restated	<u><u>\$ 20,838,408</u></u>

Statement of Net Position - Business-Type Activities

Net Position - Beginning	\$ (366,087)
Inclusion of net OPEB liability from the adoption of GASB Statement No. 75	<u>(560,693)</u>
Net Position - Beginning as Restated	<u><u>\$ (926,780)</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

SANTEE SCHOOL DISTRICT

**GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2018**

	Budgeted Amounts		Actual (GAAP Basis)	Variances -
	Original	Final		Positive (Negative) Final to Actual
REVENUES				
Local Control Funding Formula	\$ 53,205,147	\$ 53,490,841	\$ 53,430,363	\$ (60,478)
Federal sources	2,259,150	2,707,146	2,896,435	189,289
Other State sources	5,337,664	5,603,600	5,958,430	354,830
Other local sources	4,036,278	4,910,446	5,185,900	275,454
Total Revenues ¹	64,838,239	66,712,033	67,471,128	759,095
EXPENDITURES				
Current				
Certificated salaries	30,844,859	30,424,754	30,482,212	(57,458)
Classified salaries	9,350,949	9,502,258	9,396,967	105,291
Employee benefits	14,011,400	13,837,878	13,905,332	(67,454)
Books and supplies	5,141,256	4,353,016	3,349,850	1,003,166
Services and operating expenditures	4,799,388	5,311,112	4,922,091	389,021
Capital outlay	454,161	441,117	263,764	177,353
Other outgo	942,501	859,188	-	859,188
Total Expenditures ¹	65,544,514	64,729,323	62,320,216	2,409,107
Excess (Deficiency) of Revenues Over Expenditures	(706,275)	1,982,710	5,150,912	3,168,202
Other Financing Sources (Uses)				
Transfers in	20,170	20,170	20,170	-
Transfers out	(1,729,781)	(1,729,781)	(2,862,748)	(1,132,967)
Other uses	-	-	(43,385)	(43,385)
Net Financing Sources (Uses)	(1,709,611)	(1,709,611)	(2,885,963)	(1,176,352)
NET CHANGE IN FUND BALANCE	(2,415,886)	273,099	2,264,949	1,991,850
Fund Balance - Beginning	17,648,052	17,648,052	17,648,052	-
Fund Balance - Ending	\$ 15,232,166	\$ 17,921,151	\$ 19,913,001	\$ 1,991,850

¹ 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 CHANGES IN THE DISTRICT'S TOTAL OPEB LIABILITY AND RELATED RATIOS FOR THE YEAR ENDED JUNE 30, 2018

	<u>2018</u>
Total OPEB Liability	
Service cost	\$ 709,438
Interest	398,801
Benefit payments	<u>(659,475)</u>
Net change in total OPEB liability	448,764
Total OPEB liability - beginning	<u>11,349,752</u>
Total OPEB liability - ending	<u><u>\$ 11,798,516</u></u>
Covered payroll	<u>N/A¹</u>
District's total OPEB liability as a percentage of covered payroll	<u>N/A¹</u>

¹ The District's OPEB Plan is not administered through a trust, and contributions are not made based on a measure of pay; therefore, no measure of payroll is presented.

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

See accompanying note to required supplementary information.

SANTEE SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY - MPP PROGRAM FOR THE YEAR ENDED JUNE 30, 2018

Year ended June 30,	<u>2018</u>
District's proportion of the net OPEB liability	<u>0.1043%</u>
District's proportionate share of the net OPEB liability	<u>\$ 438,687</u>
District's covered-employee payroll	<u>N/A¹</u>
District's proportionate share of the net OPEB liability as a percentage of it's covered-employee payroll	<u>N/A¹</u>
Plan fiduciary net position as a percentage of the total OPEB liability	<u>0.01%</u>

¹ As of June 30, 2012, active members are no longer eligible for future enrollment in the MPP Program; therefore, the covered payroll disclosure is not applicable.

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

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, 2018

	<u>2018</u>	<u>2017</u>
CalSTRS		
District's proportion of the net pension liability	<u>0.0576%</u>	<u>0.0559%</u>
District's proportionate share of the net pension liability	\$ 53,264,909	\$ 45,228,603
State's proportionate share of the net pension liability associated with the District	<u>31,511,070</u>	<u>25,747,837</u>
Total	<u>\$ 84,775,979</u>	<u>\$ 70,976,440</u>
District's covered-employee payroll	<u>\$ 30,771,550</u>	<u>\$ 27,876,719</u>
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	<u>173%</u>	<u>162%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>69%</u>	<u>70%</u>
CalPERS		
District's proportion of the net pension liability	<u>0.0767%</u>	<u>0.0759%</u>
District's proportionate share of the net pension liability	<u>\$ 18,310,876</u>	<u>\$ 14,990,505</u>
District's covered-employee payroll	<u>\$ 9,444,081</u>	<u>\$ 9,277,378</u>
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	<u>194%</u>	<u>162%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>72%</u>	<u>74%</u>

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

See accompanying note to required supplementary information.

<u>2016</u>	<u>2015</u>
<u>0.0575%</u>	<u>0.0554%</u>
\$ 38,739,370	\$ 32,375,968
<u>20,488,856</u>	<u>19,550,007</u>
<u>\$ 59,228,226</u>	<u>\$ 51,925,975</u>
<u>\$ 26,226,588</u>	<u>\$ 24,873,673</u>
<u>148%</u>	<u>130%</u>
<u>74%</u>	<u>77%</u>
<u>0.0756%</u>	<u>0.0742%</u>
<u>\$ 11,143,726</u>	<u>\$ 8,423,067</u>
<u>\$ 8,463,152</u>	<u>\$ 7,731,367</u>
<u>132%</u>	<u>109%</u>
<u>79%</u>	<u>83%</u>

SANTEE SCHOOL DISTRICT

**SCHEDULE OF DISTRICT CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>2018</u>	<u>2017</u>
CalSTRS		
Contractually required contribution	\$ 4,308,452	\$ 3,871,061
Contributions in relation to the contractually required contribution	<u>4,308,452</u>	<u>3,871,061</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	<u>\$ 29,857,602</u>	<u>\$ 30,771,550</u>
Contributions as a percentage of covered-employee payroll	<u>14.43%</u>	<u>12.58%</u>
CalPERS		
Contractually required contribution	\$ 1,611,122	\$ 1,311,594
Contributions in relation to the contractually required contribution	<u>1,611,122</u>	<u>1,311,594</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	<u>\$ 10,374,256</u>	<u>\$ 9,444,081</u>
Contributions as a percentage of covered - employee payroll	<u>15.53%</u>	<u>13.89%</u>

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

See accompanying note to required supplementary information.

<u>2016</u>	<u>2015</u>
\$ 2,991,172	\$ 2,328,921
<u>2,991,172</u>	<u>2,328,921</u>
<u>\$ -</u>	<u>\$ -</u>
<u>\$ 27,876,719</u>	<u>\$ 26,226,588</u>
<u>10.73%</u>	<u>8.88%</u>

\$ 1,099,091	\$ 996,113
<u>1,099,091</u>	<u>996,113</u>
<u>\$ -</u>	<u>\$ -</u>
<u>\$ 9,277,378</u>	<u>\$ 8,463,152</u>
<u>11.85%</u>	<u>11.77%</u>

SANTEE SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2018

NOTE 1 - PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

The District employs budget control by object codes and by individual appropriation accounts. Budgets are prepared on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United State of America as prescribed by the Governmental Accounting Standards Board and provisions of the California *Education Code*. The governing board is required to hold a public hearing and adopt an operating budget no later than July 1 of each year. 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.

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 Changes in the District's Total OPEB Liability and Related Ratios

This schedule presents information on the District's changes in the total OPEB liability, including beginning and ending balances, the plan's fiduciary net position, and the total OPEB liability. In the future, as data becomes available, ten years of information will be presented.

Changes in Benefit Terms – There were no changes in the benefit terms since the previous valuation.

Changes of Assumptions – There were no changes of assumptions since the previous valuation.

Schedule of the District's Proportionate Share of the Net OPEB Liability – MPP Program

This schedule presents information on the District's proportionate share of the net OPEB Liability – MPP Program and the plans' fiduciary net position. In the future, as data becomes available, ten years of information will be presented.

Changes in Benefit Terms – There were no changes in the benefit terms since the previous valuation.

Changes of Assumptions – The plan rate of investment return assumption was changed from 2.85 percent to 3.58 percent since the previous valuation.

SANTEE SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2018

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

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, 2018**

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 East County SELPA:				
Special Education Cluster:				
Basic Local Assistance Entitlement, Part B, Section 611	84.027	13379	\$ 1,108,553	\$ -
Preschool Grants, Part B, Section 619	84.173	13430	73,847	-
Preschool Local Entitlement, Part B, Section 611	84.027A	13682	194,730	-
Mental Health Allocation Plan, Part B, Section 611	84.027A	15197	22,179	-
Preschool Staff Development, Part B, Section 619	84.173A	13431	552	-
Subtotal Special Education Cluster			1,399,861	-
Passed through California Department of Education (CDE):				
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329	604,919	-
Title II, Part A, Supporting Effective Instruction	84.367	14341	172,180	-
English Language Acquisition State Grants:				
Title III, English Learner Student Program	84.365	14346	94,766	-
Title III, Immigrant Student' Program	84.365	15146	12,153	-
Subtotal English Language Acquisition State Grants			106,919	-
Education for Homeless Children and Youth	84.196	14332	76,693	43,385
Federal Impact Aid	84.041	10015	84,496	-
Total U.S. Department of Education			2,445,068	43,385
U.S. DEPARTMENT OF DEFENSE				
Passed through Department of Defense Education Activity (DoDEA):				
Support for Student Achievement at Military Connected Schools	12.556	[1]	26,459	-
Total U.S. Department of Defense			26,459	-
U.S. DEPARTMENT OF AGRICULTURE				
Passed through CDE:				
Child Nutrition Cluster:				
Especially Needy Breakfast	10.553	13526	357,463	-
National School Lunch Program	10.555	13524	1,170,783	-
Food Distribution	10.555	13524	163,894	-
Subtotal Child Nutrition Cluster			1,692,140	-
Child and Adult Care Food Program	10.558	13666	122,051	-
Total U.S. Department of Agriculture			1,814,191	-
U.S. DEPARTMENT OF HOMELAND SECURITY				
Passed through CDE:				
FEMA Public Assistance Grant	97.036	10014	44,489	-
Total U.S. Department of Homeland Security			44,489	-

[1] Pass-Through Entity Identifying Number not available.

See accompanying note to supplementary information.

SANTEE SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018, (Continued)**

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures	Passed Through to Subrecipients
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	\$ 132,109	\$ -
Medi-Cal Administrative Activities Program	93.778	10060	135,710	-
Subtotal Medi-Cal Assistance Program:			<u>267,819</u>	<u>-</u>
Total U.S. Department of Health and Human Services			<u>267,819</u>	<u>-</u>
Total Expenditures of Federal Awards			<u>\$ 4,598,026</u>	<u>\$ 43,385</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, 2018

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>
Dianne El-Hajj	President	December 2020
Ken Fox	Vice President	December 2018
Dustin Burns	Clerk	December 2018
Barbara Ryan	Member	December 2018
Elana Levens-Craig	Member	December 2020

ADMINISTRATION

Dr. 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, 2018**

	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Transitional kindergarten through third	3,077.43	3,092.92
Fourth through sixth	2,138.36	2,133.63
Seventh and eighth	1,308.59	1,304.84
Total Regular ADA	<u>6,524.38</u>	<u>6,531.39</u>
Extended Year Special Education		
Transitional kindergarten through third	4.38	4.38
Fourth through sixth	3.84	3.84
Seventh and eighth	1.03	1.03
Total Extended Year Special Education	<u>9.25</u>	<u>9.25</u>
Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	1.93	1.70
Fourth through sixth	5.24	5.16
Seventh and eighth	1.82	1.61
Total Special Education, Nonpublic, Nonsectarian Schools	<u>8.99</u>	<u>8.47</u>
Extended Year Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	0.70	0.70
Fourth through sixth	0.50	0.50
Seventh and eighth	0.30	0.30
Total Extended Year Special Education, Nonpublic, Nonsectarian Schools	<u>1.50</u>	<u>1.50</u>
Community Day School		
Seventh and eighth	4.05	6.12
Total ADA	<u><u>6,548.17</u></u>	<u><u>6,556.73</u></u>

See accompanying note to supplementary information.

SANTEE SCHOOL DISTRICT

**SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2018**

Grade Level	1986-87	2017-18	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, 2018

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, 2018, Unaudited Actuals	\$ 1,510,130
Increase in:	
Deferred outflows of resources related to pensions	1,245,405
Deferred outflows of resources related to net other postemployment benefits (OPEB) liability	38,847
Net pension liability	(2,996,675)
Deferred inflows of resources related to pensions	(43,928)
Net OPEB liability	(800,156)
Balance, June 30, 2018, Audited Financial Statement	<u>\$ (1,046,377)</u>

See accompanying note to supplementary information.

SANTEE SCHOOL DISTRICT

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2018**

	(Budget) 2019 ¹	2018	2017	2016
GENERAL FUND ³				
Revenues	\$ 70,438,452	\$ 67,426,594	\$ 65,778,862	\$ 62,020,677
Other sources and transfers in	-	20,170	22,271	29,143
Total Revenues and Other Sources	<u>70,438,452</u>	<u>67,446,764</u>	<u>65,801,133</u>	<u>62,049,820</u>
Expenditures	67,626,237	63,297,693	62,217,241	56,166,403
Other uses and transfers out	5,428,373	1,928,658	2,500,079	2,311,236
Total Expenditures and Other Uses	<u>73,054,610</u>	<u>65,226,351</u>	<u>64,717,320</u>	<u>58,477,639</u>
INCREASE (DECREASE) IN FUND BALANCE	<u>\$ (2,616,158)</u>	<u>\$ 2,220,413</u>	<u>\$ 1,083,813</u>	<u>\$ 3,572,181</u>
ENDING FUND BALANCE	<u>\$ 14,320,469</u>	<u>\$ 16,936,627</u>	<u>\$ 14,716,214</u>	<u>\$ 13,632,401</u>
AVAILABLE RESERVES ²	<u>\$ 16,260,086</u>	<u>\$ 18,309,427</u>	<u>\$ 14,966,589</u>	<u>\$ 14,298,730</u>
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO	<u>22.3%</u>	<u>28.07%</u>	<u>23.13%</u>	<u>24.45%</u>
LONG-TERM OBLIGATIONS ⁴	<u>N/A</u>	<u>\$ 108,578,585</u>	<u>\$ 107,778,702</u>	<u>\$ 97,804,999</u>
K-12 AVERAGE DAILY ATTENDANCE AT P-2	<u>6,548</u>	<u>6,548</u>	<u>6,531</u>	<u>6,278</u>

The General Fund balance has increased by \$3,304,226 over the past two years. The fiscal year 2018-2019 budget projects a decrease of \$2,616,158 (15.45 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 the past three years but anticipates incurring an operating deficit during the 2018-2019 fiscal year. Total long-term obligations have increased by \$10,773,586 over the past two years.

Average daily attendance has increased by 270 over the past two years. No change in ADA is anticipated during fiscal year 2018-2019.

¹ Budget 2019 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 and the Special Reserve Fund for Other Than Capital Outlay Projects.

³ 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.

⁴ Long-term obligations have been restated due to the implementation of GASB Statement No. 75.

See accompanying note to supplementary information.

SANTEE SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2018**

	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund
ASSETS			
Deposits and investments	\$ 4,481	\$ 582,493	\$ 18,968
Receivables	55,952	77,424	214
Due from other funds	-	2,246	196,648
Stores inventories	-	66,018	-
Total Assets	\$ 60,433	\$ 728,181	\$ 215,830
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 1,873	\$ 13,206	\$ 130,809
Due to other funds	37,883	135,743	39,500
Total Liabilities	39,756	148,949	170,309
Fund Balances:			
Nonspendable	-	66,018	-
Restricted	20,677	513,214	-
Committed	-	-	45,521
Total Fund Balances	20,677	579,232	45,521
Total Liabilities and Fund Balances	\$ 60,433	\$ 728,181	\$ 215,830

See accompanying note to supplementary information.

Bond Interest and Redemption Fund	Total Non-Major Governmental Funds
\$ 2,399,459	\$ 3,005,401
-	133,590
-	198,894
-	66,018
<u>\$ 2,399,459</u>	<u>\$ 3,403,903</u>
\$ -	\$ 145,888
-	213,126
<u>-</u>	<u>359,014</u>
-	66,018
2,399,459	2,933,350
-	45,521
<u>2,399,459</u>	<u>3,044,889</u>
<u>\$ 2,399,459</u>	<u>\$ 3,403,903</u>

SANTEE SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2018**

	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund
REVENUES			
Local Control Funding Formula	\$ -	\$ -	\$ 535,000
Federal sources	-	1,814,191	-
Other State sources	294,323	118,989	-
Other local sources	889	679,468	1,577
Total Revenues	295,212	2,612,648	536,577
EXPENDITURES			
Current			
Instruction	230,261	-	-
Instruction-related activities:			
Supervision of instruction	24,199	-	-
Instructional library, media, and technology	6,208	-	-
Pupil services:			
Food services	-	2,446,505	-
Administration:			
All other administration	18,924	118,374	-
Plant services	-	60,089	568,428
Other outgo	-	-	-
Facility acquisition and construction	-	-	214,915
Debt service			
Principal	-	-	-
Interest and other	-	-	-
Total Expenditures	279,592	2,624,968	783,343
Excess (Deficiency) of Revenues Over (Under) Expenditures	15,620	(12,320)	(246,766)
Other Financing Sources (Uses)			
Transfers in	-	2,229	196,648
Other sources	-	-	-
Other uses	-	-	-
Net Financing Sources (Uses)	-	2,229	196,648
NET CHANGE IN FUND BALANCES	15,620	(10,091)	(50,118)
Fund Balances - Beginning	5,057	589,323	95,639
Fund Balances - Ending	\$ 20,677	\$ 579,232	\$ 45,521

See accompanying note to supplementary information.

Bond Interest and Redemption Fund	Total Non-Major Governmental Funds
\$ -	\$ 535,000
-	1,814,191
28,602	441,914
<u>2,631,881</u>	<u>3,313,815</u>
<u>2,660,483</u>	<u>6,104,920</u>
-	230,261
-	24,199
-	6,208
-	2,446,505
-	137,298
-	628,517
256,639	256,639
-	214,915
1,555,976	1,555,976
887,850	887,850
<u>2,700,465</u>	<u>6,388,368</u>
<u>(39,982)</u>	<u>(283,448)</u>
-	198,877
12,179,450	12,179,450
<u>(11,922,811)</u>	<u>(11,922,811)</u>
<u>256,639</u>	<u>455,516</u>
216,657	172,068
2,182,802	2,872,821
<u>\$ 2,399,459</u>	<u>\$ 3,044,889</u>

SANTEE SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2018

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

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

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts consists primarily of Medi-Cal Billing Option and FEMA Public Assistance Grant funds that have been recorded in the current period as revenues that have not been expended as of June 30, 2018. These unspent balances are reported as legally restricted ending balances within the General Fund.

	<u>CFDA Number</u>	<u>Amount</u>
Total Federal Revenues From the Statement of Revenues, Expenditures, and Changes in Fund Balances:		\$ 4,710,626
Medi-Cal Billing Option	93.778	(20,225)
FEMA Public Assistance Grant	97.036	(92,375)
Total Schedule of Expenditures of Federal Awards		<u>\$ 4,598,026</u>

Local Education Agency Organization Structure

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

Schedule of Average Daily Attendance (ADA)

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

SANTEE SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2018

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.

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, 2018, 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 5, 2018.

Emphasis of Matter - Change in Accounting Principles

As discussed in Note 1 and Note 15 to the financial statements, in 2018, the District adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

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 5, 2018



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

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND REPORT 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 (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Santee School District's major Federal programs for the year ended June 30, 2018. 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, 2018.

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 5, 2018



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 (the District) compliance with the types of compliance requirements as identified in the *2017-2018 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, 2018.

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 *2017-2018 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

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, 2018.

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
Apprenticeship: Related and Supplemental Instruction	No, see below
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After/Before 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
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 does not offer an Apprenticeship Program; therefore, we did not perform any procedures for the Apprenticeship Program.

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

The District 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 5, 2018

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SANTEE SCHOOL DISTRICT

**SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2018**

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>
<u>10.555 and 10.553</u>	<u>Child Nutrition Cluster</u>

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

STATE AWARDS

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

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018**

None reported.

SANTEE SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

None reported.

SANTEE SCHOOL DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

None reported.

SANTEE SCHOOL DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018**

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