FULLERTON
SCHOOL DISTRICT

AUDIT REPORT

For the Fiscal Year Ended
June 30, 2018

FULLERTON SCHOOL DISTRICT
For the Fiscal Year Ended June 30, 2018
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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Fullerton School District
Fullerton, California

Report on the Financial Statements
We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fullerton School District, as of and for the fiscal 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.

Auditors' 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, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting.* 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, each major fund, and the aggregate remaining fund information of Fullerton School District, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Jeff Nigro, CPA, CFE | Elizabeth Nigro, CPA | Kevin Brejnak, CPA, CFE | Peter Glenn, CPA | Michael Klein, CPA, CMA, EA

MURRIETA OFFICE 25220 Hancock Avenue, Suite 400, Murrieta, CA 92562 • P: (951) 698-8783 • F: (951) 699-1064
OAKLAND OFFICE 333 Hegenberger Road, Suite 388, Oakland, CA 94621 • P: (844) 557-3111 • F: (844) 557-3444

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Change in Accounting Principle
As discussed in Note 1.I. to the basic financial statements, the District has changed its method for accounting and reporting for postemployment benefits other than pensions during fiscal year 2017-18 due to the adoption of Governmental Accounting Standards Board Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions". The adoption of this standard required retrospective application resulting in a $22,171,539 reduction of previously reported net position at July 1, 2017. 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, budgetary comparison information, schedule of changes in the District's total OPEB liability and related ratios, schedule of proportionate share of the net pension liability, schedule of pension contributions, and the notes to the required supplementary information 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 District's basic financial statements. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements. The supplementary information on pages 70 to 73 and the schedule of expenditures of federal awards on page 74 are the responsibility of management and were derived from and relate 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 information is fairly stated in all material respects in relation to the basic financial statements as a whole. The information on page 69 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards,* we have also issued our report dated November 29, 2018, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Nigro + Nigro, PC.

Murrieta, California
November 29, 2018

INTRODUCTION

The following discussion and analysis provides an overview of the financial position and activities of the District for the year ended June 30, 2018. This discussion has been prepared by management and should be read in conjunction with the financial statements and notes thereto which follow this section.

The Fullerton School District is a large suburban school district offering instruction to students from transitional kindergarten through eighth grade, including programs for preschool and special education. During the 2017-18 school year, the District operated fifteen elementary schools, two K-8 schools, and three junior high schools, on the traditional August through May schedule, for the instruction of approximately 13,286 students.

MISSION STATEMENT

The mission of the Fullerton School District is to work collaboratively with the community to provide an innovative, high-quality educational program for all students in a safe learning environment. Our motto, *"Great Schools - Successful Kids"* exemplifies the belief that all students will achieve academic excellence, acquire interpersonal skills, and develop technological expertise to contribute as productive citizens in a democratic society.

Focusing on Excellence

Student Learning

- Prepare students to be successful in high school, college and career by fostering students' personalized interest and passion as well as increasing student self-efficacy through mastery of grade level content standards, technology, and the 5 C's (communication, collaboration, creativity, critical thinking, character) needed for students to be innovative in the 21st Century. Students will be able to identify interests and a pathway to college and career by 8th grade. Additionally, students prepared to take A-G requirements will increase.

Curriculum and Assessment

- Provide a standards-based academic program that focuses on utilizing research-based instructional strategies with effective and timely feedback that allows staff and parents to work together to make instructional decisions that promote success for all students.

Budget and Resources

- Ensure long-term District financial stability that provides adequate funding for all desired programs, facilities, and the resources necessary to attract highly qualified staff while maintaining a budget free of structural deficit spending.

Staffing

- Recruit, hire and develop the best staff possible is a top priority, as great teachers are key to achieving a high quality of education in our District. Where children are adversely impacted, we will take steps to dismiss unsatisfactory performers.

Parents and Community

- High level of focus on parent and community engagement in all areas of programming and committees by fostering a culture throughout the District where community and family feel welcomed, respected and appreciated.

MISSION STATEMENT (continued)

Staff Development

- Encourage and support growth by implementing research-based professional development to guide work and align training opportunities to District goals, site goals and student needs.

Technology

- Empower all students and staff to effectively integrate state-of-the-art technology in all facets of the instructional and operational programs of the District.

Leadership

- Sustain a professional cutting edge leadership team that works together to promote collaboration and foster a positive learning and working environment for all students and staff.

Facilities

- Maintain and improve facilities to provide a safe, attractive, positive learning, and working environment for all students and staff.

FINANCIAL HIGHLIGHTS

Districtwide Financial Statements

- As of June 30, 2018, the District's overall financial condition decreased from June 30, 2017, as Net Position decreased $11.5 million. The sum of general revenues, operating grants and contributions, and charges for services was less than total expenses, creating the decrease.

- Overall revenues decreased $2.6 million, to $151.2 million. The largest category of revenue to the District is the Local Control Funding Formula (LCFF), which makes up $108.8 million (72%) of total revenues.

- Overall expenditures increased $7.8 million, to $162.7 million. The majority of expenditures ($121.2 million) were for instruction and instruction-related services.

- Since revenues increased less than expenditures, the change in net position showed a decrease of $11.5 million. This amount represents a decrease in the District's reserves.

- Total District-wide expenses were $162.7 million. Because a portion of these costs was paid for with charges, fees, and federal and state categorical programs, the net cost that required taxpayer funding was $133.5 million.

General Fund Financial Statements

- The District's General Fund recorded a net decrease to the ending Fund Balance for the year. Actual results were better than the revised operating budget for the year. This positive variance came about primarily because of underspending across all programs, as well as underspending of restricted categorical funds (which will be carried over into the next fiscal year). The District also did not spend a portion of unrestricted one-time Mandated Cost reimbursement funding, which was carried over into the next fiscal year.

- Revenues of $139.9 million ($114.7 million Unrestricted, $25.2 million Restricted) were received.

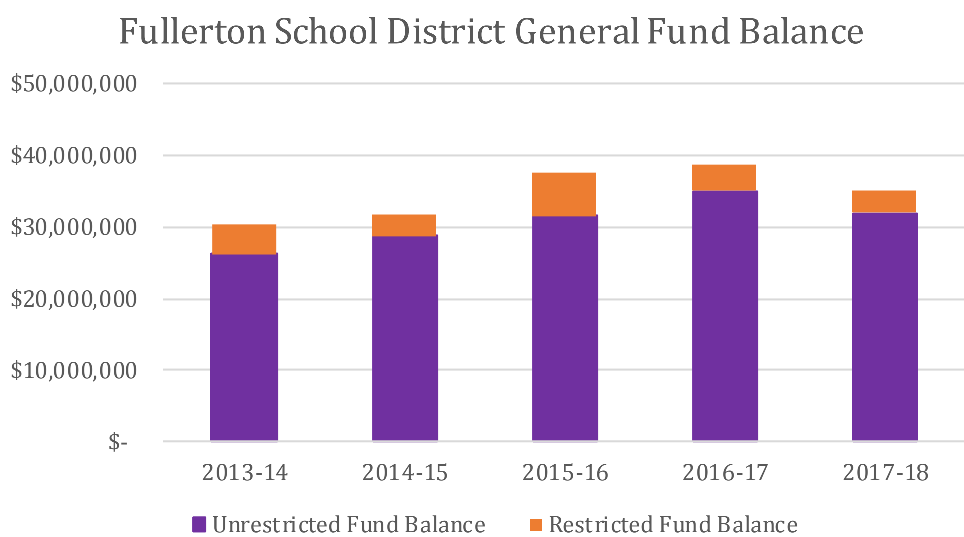
FINANCIAL HIGHLIGHTS (continued)

General Fund Financial Statements (continued)

- Expenditures of $143.3 million ($101.1 million Unrestricted, $42.2 million Restricted) were made.
- The net result of operations was a decrease to the ending fund balance of $3.4 million. ($13.6 million increase in Unrestricted, $17.0 million decrease in Restricted)

A five-year history of the District's General Fund is as follows:

	Ending Fund Balance			Net Change In
	Unrestricted	Restricted	Total	Fund Balance
2013-14	$ 26,239,641	$ 4,100,734	$ 30,340,375	$ 3,632,278
2014-15	28,753,801	2,973,908	31,727,709	1,387,334
2015-16	31,512,672	6,200,580	37,713,252	5,985,543
2016-17	35,063,235	3,576,145	38,639,380	926,129
2017-18	31,918,473	3,300,180	35,218,653	(3,420,727)



At June 30, 2018, the District's General Fund Balance was comprised of:

Reserved Amounts	$ 296,566
Legally Restricted Balances	3,300,180
Assigned	5,571,094
Unassigned	26,050,813
Total	$ 35,218,653

FINANCIAL HIGHLIGHTS (continued)

General Fund Financial Statements (continued)

The amount Designated for Economic Uncertainties was $4,298,566, or 3% of total General Fund expenditures. The State mandated requirement is a 3% reserve.

The actual amounts reported above are for the General Fund only, and do not agree with the amounts reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances because the amounts on that schedule include the financial activity of the Deferred Maintenance Fund, Special Reserve Fund for Other Than Capital Outlay Projects, and Special Reserve Fund for Postemployment Benefits, in accordance with the fund type definitions promulgated by GASB Statement No. 54.

LCFF and Average Daily Attendance (ADA)

The majority of the District's unrestricted revenues are received from the State through the LCFF. The State switched to the LCFF funding formula in the 2013-14 fiscal year.

The State's 2013-14 budget presented an extraordinary change in California school district funding. The Revenue limits and most categorical programs which have existed since the 1970's *Serrano vs. Priest* decision were eliminated. Instead, the State implemented the Local Control Funding Formula (LCFF). Under LCFF, instead of the State allocating funds and requiring the Districts to spend money on programs and service the State determines are a priority, the new funding formula gives local boards control over how to use funds and resources in a way that improves outcomes and opportunities for all students. The new funding model specifically addresses students with greater needs – such as English learners, low-income and foster youth – with input from the community and with specific student outcome in mind.

School district leaders have conjectured that LCFF presents an historic opportunity to focus on improving student outcomes, closing achievement gaps, and increasing the level of communication between schools and their communities. Further, the State's shift away from complex categorical funding will require Districts to be strategic and collaborative when investing resources and delivering instructional programs to best serve students.

While the main drivers of the Revenue Limit were Average Daily Attendance (ADA) and State-funded Cost of Living Adjustment (COLA), LCFF adds two additional factors:

- Unduplicated Percentages of Underserved Students - defined as those students enrolled in the Free and Reduced Lunch program, English Language Learners, and Foster Youth. Due to the widely differing unduplicated count percentages in different school districts, the amounts received in LCFF funding will vary widely by District will become even more disparate as time goes on.

- Percentage of Gap Funding during Transition: Full implementation of the LCFF was beyond the State's prior year financial means. Therefore, the State initially intended to fully implement LCFF over an eight-year period. Each year, as part of the budget process, the Legislature and Governor (with consideration of the COLA and Proposition 98 requirements) will determine the amount of the gap funding to implement in the current budget year. For 2018-19, LCFF is projected to be fully funded.

The District calculates its LCFF apportionment based upon a formula incorporating these inputs. The District receives its share of local property taxes, and the State provides Apportionment Revenue to make up the total LCFF earned.

FINANCIAL HIGHLIGHTS (continued)

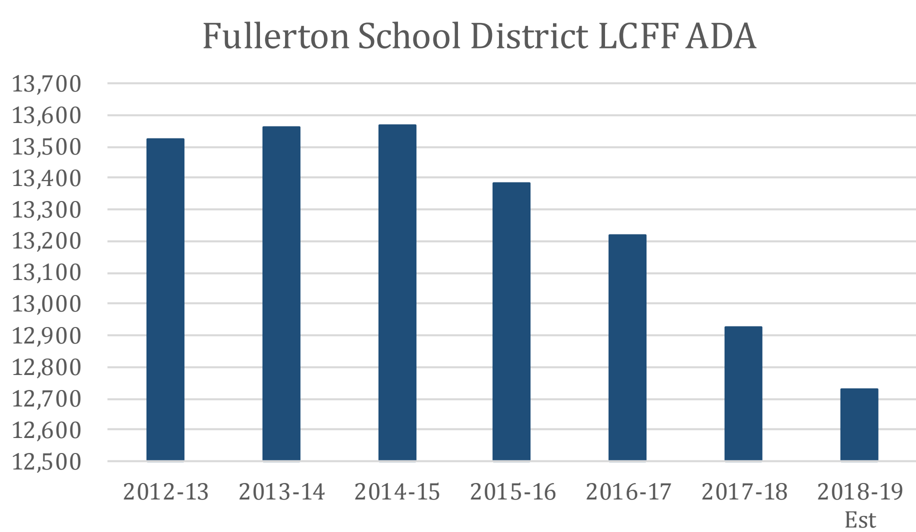
Average Daily Attendance (ADA)

Virtually all of the District's funding is based upon the number of students in attendance at District schools, or Average Daily Attendance (ADA). ADA is calculated based upon the actual number of days a student attends school, divided by the total possible instructional days (180 days for a full school year). Thus, a student who attends class every day of the school year, with no absences, earns one ADA.

The District's main source of funding, the Local Control Funding Formula (LCFF) is calculated based upon the District's Second Period ("P-2") ADA. If a district is in a declining enrollment situation (like Fullerton School District), LCFF is calculated based upon the higher, prior-year ADA. Therefore, even though enrollment decreased by approximately 77 students in fiscal year 2017-18, the District still earned LCFF based upon the higher 2016-17 ADA. The lower ADA for 2017-18 is reflected in the 2018-19 LCFF. This one-year lag is projected to continue for the foreseeable future as the District remains in declining enrollment.

P-2 apportionment-earning ADA used in the calculation of the Revenue Limit/LCFF for the past five years, and the estimated LCFF ADA for the current year, is as follows:

2012-13	13,520
2013-14	13,558
2014-15	13,565
2015-16	13,384
2016-17	13,218
2017-18	12,924
2018-19 Est	12,726



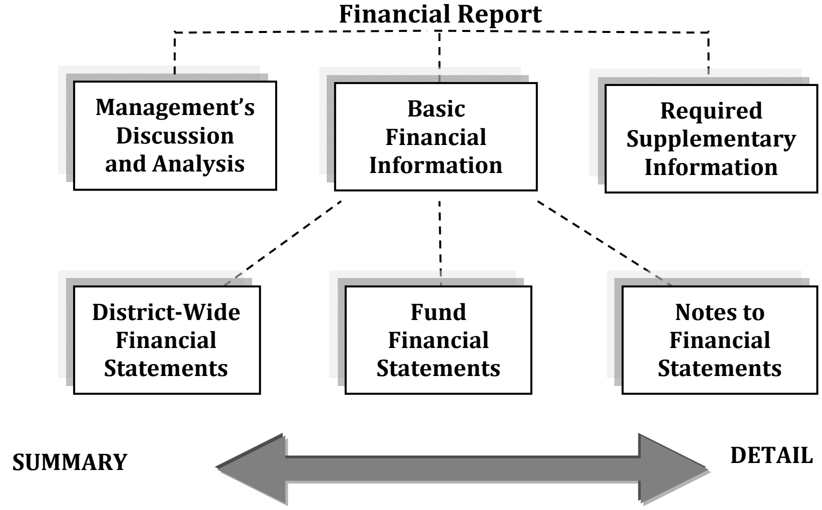
OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *district-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.
  - The *governmental funds* statements tell how basic services like regular and special education were financed in the short term as well as what remains for future spending.
  - Short and long-term financial information about the activities of the District that operate like businesses (self-insurance funds) are provided in the *proprietary funds statements*.
  - *Fiduciary funds* statement provides information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others to whom the resources belong.

The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

Figure A-1. Organization of Fullerton School District's Annual Financial Report



OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2. Major Features of the District-Wide and Fund Financial Statements

Type of Statements	District-Wide	Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District, except fiduciary activities	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities of the District that operate like a business, such as self-insurance funds	Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	• Statement of Net Position • Statement of Activities	• Balance Sheet • Statement of Revenues, Expenditures & Changes in Fund Balances	• Statement of Net Position • Statement of Revenues, Expenses, & Changes in Net Position • Statement of Cash Flows	• Statement of Fiduciary Net Position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both short-term and long-term; The District's funds do not currently contain nonfinancial assets, though they can	All assets and liabilities, both short-term and long-term; The District's funds do not currently contain nonfinancial assets, though they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during the year, regardless of when cash is received or paid

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

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

The two district-wide statements report the District's net position and how it has changed. Net position – the difference between the District's assets and deferred outflows of resources and liabilities and deferred inflows of resources – is one way to measure the District's financial health, or *position*.

- Over time, increases and decreases in the District's net position are an indicator of whether its financial position is improving or deteriorating, respectively.

- To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's demographics and the condition of school buildings and other facilities.

- In the district-wide financial statements, the District's activities are categorized as *Governmental Activities*. Most of the District's basic services are included here, such as regular and special education, transportation, and administration. Property taxes and state aid finance most of these activities.

Fund Financial Statements
The fund financial statements provide more detailed information about the District's most significant funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.

- The District establishes other funds to control and manage money for particular purposes (like repaying its long-term debt) or to show that it is properly using certain revenues.

The District has three kinds of funds:

- *Governmental funds* – Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information on a separate reconciliation page that explains the relationship (or differences) between them.

Fund Financial Statements (continued)

- *Proprietary funds* – When the District charges other District funds for the services it provides, these services are reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and Statement of Activities. In fact, the District's internal service fund is included within the governmental activities reported in the district-wide statements but provides more detail and additional information, such as cash flows. The District uses the internal service fund to report activities that relate to the District's self-insured program for workers' compensation claims and property and liability losses.

- *Fiduciary funds* – The District is the trustee, or fiduciary, for assets that belong to others, namely, the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position. The District's combined net position was lower on June 30, 2018, than it was the year before – decreasing 23.9% to $(59.6) million (See Table A-1).

Table A-1: Statement of Net Position

	Governmental Activities		Variance Increase
	2018	**2017***	**(Decrease)**
Assets			
Current assets	$ 58,800,453	$ 59,562,986	$ (762,533)
Capital assets	85,323,110	88,345,939	(3,022,829)
Total assets	144,123,563	147,908,925	(3,785,362)
Deferred outflows of resources	44,314,467	29,670,046	14,644,421
Liabilities			
Current liabilities	10,266,734	8,389,279	1,877,455
Long-term liabilities	76,158,384	76,608,432	(450,048)
Net pension liability	149,449,341	130,099,053	19,350,288
Total liabilities	235,874,459	215,096,764	20,777,695
Deferred inflows of resources	12,157,218	10,562,287	1,594,931
Net position			
Net investment in capital assets	51,958,256	51,823,290	134,966
Restricted	14,785,140	14,652,287	132,853
Unrestricted	(126,337,043)	(114,555,657)	(11,781,386)
Total net position	$ (59,593,647)	$ (48,080,080)	$ (11,513,567)

* As restated

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (continued)

Changes in net position, governmental activities. The District's total revenues decreased 1.7% to $151.2 million (See Table A-2). The decrease is due primarily to lower revenues from operating grants and other general revenues.

The total cost of all programs and services increased 5.0% to $162.7 million. The District's expenses are predominantly related to educating and caring for students, 83.2%. The purely administrative activities of the District accounted for just 4.5% of total costs. A significant contributor to the increase in costs was instruction and pupil services.

Table A-2: Statement of Activities

	Governmental Activities		Variance Increase (Decrease)
	2018	**2017**	
Revenues			
Program Revenues:			
Charges for services	$ 1,277,505	$ 25,601	$ 1,251,904
Operating grants and contributions	27,846,326	31,673,692	(3,827,366)
General Revenues:			
Property taxes	56,814,892	51,066,259	5,748,633
Federal and state aid not restricted	61,133,609	65,708,074	(4,574,465)
Other general revenues	4,082,846	5,291,905	(1,209,059)
Total Revenues	151,155,178	153,765,531	(2,610,353)
Expenses			
Instruction-related	121,206,850	116,153,244	5,053,606
Pupil services	14,061,537	13,391,188	670,349
Administration	7,274,362	7,090,722	183,640
Plant services	12,004,830	10,532,757	1,472,073
All other activities	8,121,166	7,744,085	377,081
Total Expenses	162,668,745	154,911,996	7,756,749
Increase (decrease) in net position	$ (11,513,567)	$ (1,146,465)	$ (10,367,102)
Total net postion	$ (59,593,647)	$ (48,080,080)	

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The Governmental Funds financial statements report the financial activities of the District net of the effect of long-term items such as capital assets, long-term debt, and other multi-year commitments. Rather, the Governmental Funds statements generally present only financial transactions related to current assets and liabilities. These statements focus on cash received and spent in one year, and what assets are available at year end that can be spent on expenses and liabilities that will be paid within one fiscal year.

At June 30, 2018, the District reported a combined fund balance of $46.8 million for all of its governmental funds, which represents a decrease of $3.3 million from last year's ending fund balance of $50.1 million.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (continued)

Table A-3: The District's Fund Balances

	Fund Balances			
	July 1, 2017	Revenues	Expenditures	June 30, 2018
Fund				
General Fund	$ 38,639,380	$ 139,864,795	$ 143,285,522	$ 35,218,653
Child Development Fund	707,409	4,442,160	4,364,132	785,437
Cafeteria Special Revenue Fund	2,214,550	5,931,190	5,991,914	2,153,826
Deferred Maintenance Fund	322,112	1,639	268,209	55,542
Building Fund	48,355	338	40,284	8,409
Capital Facilities Fund	2,290,296	312,749	273,419	2,329,626
Special Reserve Fund (Capital Outlay)	2,663,646	732,851	644,508	2,751,989
Bond Interest and Redemption Fund	3,200,241	3,971,016	3,707,175	3,464,082
Total Governmental Fund Balances	$ 50,085,989	$ 155,256,738	$ 158,575,163	$ 46,767,564
Proprietary Fund:				
Self-Insurance Fund	$ 1,559,916	$ 1,963,957	$ 1,800,929	$ 1,722,944

General Fund Budgetary Highlights
The District's primary operating fund, and the fund where the majority of its financial transactions take place, is the General Fund.

The overall financial health of the District is generally determined by the state of its General Fund. This fund reflects the effects on the District's finances caused by increased funding or cuts imposed by the State on public education funding. It is also the fund where the District Board and administration have the most flexibility to adjust expenditures to match changes in State and Federal funding.

The 2017-18 adopted budget was officially approved by the Board of Trustees on June 20, 2017. Over the course of the year, the District revised the annual operating budget several times. The major budget amendments fall into these categories:

- Revenues – increased by $11.7 million primarily to reflect increases in federal, state, and local revenue estimates. Other Federal and State revenue adjustments reflect differences between estimated and actual carryovers for June 30, 2017 (more revenue was carried over than expected so budgets increased for 2017-18). Increases in other local revenues reflect donations received during the year. The District does not budget revenues and expenditures related to donations until the actual donation is received.

- Expenditures – budget increased $17.1 million, primarily to reflect employee compensation increases negotiated in the winter of 2017, as well as the adjustment to the budget to reflect the expenditure of carryover amounts.

While the District's final budget for the General Fund anticipated that expenditures would exceed revenues by about $8.7 million, the actual results for the year show that expenditures exceeded revenues by roughly $3.4 million. Actual revenues were $0.2 million more than anticipated, and expenditures were $5.1 million less than budgeted. That amount consists primarily of restricted categorical program dollars that were not spent as of June 30, 2018, that will be carried over into the 2018-19 budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2017-18, the District had invested $2.2 million in new capital assets, related to site improvements. (More detailed information about capital assets can be found in Note 6 to the financial statements). Total depreciation expense for the year exceeded $5.2 million.

Table A-4: Capital Assets at Year End, Net of Depreciation

	Governmental Activities		Variance
	2018	2017	Increase (Decrease)
Land	$ 9,198,655	$ 9,198,655	$ -
Improvement of sites	4,108,185	3,558,019	550,166
Buildings	69,666,359	69,290,811	375,548
Equipment	2,185,988	2,485,850	(299,862)
Construction in progress	163,923	3,812,604	(3,648,681)
Total	$ 85,323,110	$ 88,345,939	$ (3,022,829)

Long-Term Debt

At year-end the District had $76.2 million in general obligation bonds, certificates of participation, RDA loans, capital leases, early retirement, and employment benefits – a decrease of 1.0% from last year – as shown in Table A-5. (More detailed information about the District's long-term liabilities is presented in Note 7 to the financial statements).

Table A-5: Outstanding Long-Term Debt at Year-End

	Governmental Activities		Variance
	2018	2017*	Increase (Decrease)
General obligation bonds	$ 34,409,303	$ 36,643,617	$ (2,234,314)
Certificates of participation	4,810,000	5,165,000	(355,000)
RDA Loans	220,221	251,681	(31,460)
Capital Leases	54,029	67,152	(13,123)
Early Retirement Incentives	1,774,418	-	1,774,418
Compensated absences	1,582,627	1,805,616	(222,989)
Other postemployment benefits	33,307,786	32,675,366	632,420
Total	$ 76,158,384	$ 76,608,432	$ (450,048)

*As restated

FACTORS BEARING ON THE DISTRICT'S FUTURE

The 2018-19 State Budget

Final Budget Package Includes $15.9 Billion in Total Reserves
The Legislature passed the final budget package on June 14, 2018. Total reserves in the final budget package are lower than the proposed level in the May Revision, but roughly the same as the level proposed by the Governor in January. The budget package also reflects various choices that shifted spending priorities compared to the Governor's proposal. In particular, the final budget package reduces payments for deferred maintenance by $700 million—relative to the Governor's proposal—freeing up a like amount of funding. Correspondingly, the final budget package reflects higher General Fund spending for homeless grants and the universities, among others. The Governor signed the *2018-19 Budget Act* and 26 other budget related bills on June 27 and June 28, 2018.

Overall Spending
The budget assumed total state spending of $197.2 billion (excluding federal and bond funds), an increase of 7% over revised totals for 2017-18. General Fund spending in the budget package is $138.7 billion—an increase of $11.6 billion, or 9%, over the revised 2017-18 level. Special fund spending increased $1.3 billion, or 2%, over the revised 2017-18 level.

Considerable New Spending on Education
The budget package contains significant increases for every education segment. For elementary and secondary schools, the state surpasses the Local Control Funding Formula target rates set in 2013-14. For early education, the budget contains higher spending for more slots, rate increases, staff training, and facilities.

Proposition 98 Establishes Minimum Spending Level
This minimum spending requirement is commonly called the minimum guarantee. The minimum guarantee is determined by three main formulas (known as tests) and various inputs, including General Fund revenue, per capita personal income, and K-12 student attendance. The state can spend at the minimum guarantee or any level above it. If the minimum guarantee increases after budget enactment due to updated inputs, the state owes a "settle-up" obligation. In some years, the state also creates or pays "maintenance factor." Maintenance factor is created when General Fund revenue growth is weak relative to changes in per capita personal income. Maintenance factor is paid when General Fund revenue growth is stronger.

Higher Proposition 98 Spending in 2016-17 and 2017-18
From the June 2017 budget plan to the June 2018 budget plan, spending increased $252 million in 2016-17 and $1.1 billion in 2017-18. These upward revisions are attributable mainly to higher General Fund revenue. As part of the 2017-18 increase, the state is making an additional maintenance factor payment of $789 million (on top of a previous $536 million payment). After making the $1.3 billion total payment, the state will have eliminated all remaining maintenance factor for the first time since 2005-06. In both 2016-17 and 2017-18, the state is spending at the calculated minimum guarantee.

2018-19 Spending up Notably Over Revised 2017-18 Level
For 2018-19, total Proposition 98 spending across all segments is $78.4 billion, an increase of $2.8 billion (3.7%) from the revised 2017-18 level. Test 2 is the operative test in 2018-19, with the increase in the guarantee attributable to a 3.67% increase in per capita personal income. Though the administration projects a 0.29% decline in student attendance for 2018-19, the budget makes no downward adjustment to the minimum guarantee. This is because the budget assumes that attendance *increases* the previous year (in 2017-18), thereby triggering a hold harmless provision in the State Constitution that negates any attendance declines over the subsequent two years. The budget sets total Proposition 98 spending in 2018-19 equal to the administration's May Revision estimate of the minimum guarantee.

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

The 2018-19 State Budget (continued)

$67.9 Billion Proposition 98 Spending on K-12 Education in 2018-19
The enacted 2018-19 level is $2.4 billion (3.6%) more than the revised 2017-18 level and $3.2 billion (4.9%) more than the *2017-18 Budget Act* level. The budget increases spending per student by $579 (5.2%) over the *2017-18 Budget Act* level, bringing Proposition 98 spending per student up to $11,645.

Package Includes Mix of Ongoing and One-Time Spending
The budget includes $5.7 billion in Proposition 98 augmentations for K-12 education across the three-year budget period. Of the $5.7 billion, $4 billion (70%) is ongoing and $1.7 billion (30%) is one time. From an accounting perspective, the increase is scored across multiple fiscal years and includes settle-up and some unspent funds from prior years that have been repurposed. In addition to the Proposition 98 increase, the budget includes $594 million in Proposition 51 bond authority for school facility projects and $100 million in non-Proposition 98 funding for kindergarten school facilities.

Fully Implements the Local Control Funding Formula (LCFF) for Schools, Then Further Increases Rates
In the January budget, the Governor proposed fully implementing LCFF and reaching the target funding rates. The final budget reaches and then goes beyond full implementation. Specifically, the budget closes the gap to the target rates and funds the statutory 2.71% cost-of-living adjustment (COLA) to those rates. In addition, the budget provides nearly an extra 1 percentage point increase in the LCFF rates—effectively funding a 3.7% COLA in 2018-19. The administration estimates that the combined ongoing cost of both full implementation and the augmented COLA is $3.7 billion. This augmentation brings total LCFF spending for school districts and charter schools to $61.1 billion, a 6.4% increase over the revised 2017-18 level. School districts and charter schools may use LCFF monies for any educational purpose.

Funds One-Time Discretionary Grants
The largest one-time spending initiative for K-12 education is $1.1 billion that local education agencies (LEAs) may use for any educational purpose. Funding is distributed based on student attendance (an estimated $183 per average daily attendance). If an LEA owes any funding to the federal government according to a 2014 settlement over Medi-Cal billing practices, the State Controller is to deduct this obligation from the LEA's discretionary grant. The budget assumes that these Medi-Cal obligations total $145 million statewide (though the administration believes actual payments likely will come in lower). The remainder of each LEA's discretionary grant will be scored against any outstanding mandate claims. As less than one-third of LEAs have any such claims, it is estimated that only $202 million of the funding provided will count toward the K-12 mandates backlog. It is estimated that the total remaining mandate backlog at the end of 2018-19 will be $668 million.

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Robert R. Coghlan, Ph.D., Assistant Superintendent, Business Services at (714) 447-7412.

FULLERTON SCHOOL DISTRICT
Statement of Net Position
June 30, 2018

	Total Governmental Activities
ASSETS	
Cash	$ 52,349,309
Accounts receivable	6,109,652
Inventories	115,312
Prepaid expenses	226,180
Non-depreciable assets	9,362,578
Depreciable assets	175,763,460
Less accumulated depreciation	(99,802,928)
Total assets	144,123,563
DEFERRED OUTFLOWS OF RESOURCES	
Deferred amounts on refunding	1,105,510
Deferred outflows from pensions	43,208,957
Total deferred outflows of resources	44,314,467
LIABILITIES	
Accounts payable	10,034,456
Unearned revenue	232,278
Long-term liabilities:	
Portion due or payable within one year	4,132,724
Portion due or payable after one year	72,025,660
Net pension liability	149,449,341
Total liabilities	235,874,459
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows from pensions	11,111,120
Deferred inflows from OPEB	1,046,098
Total deferred inflows of resources	12,157,218
NET POSITION	
Net investment in capital assets	51,958,256
Restricted for:	
Capital projects	5,081,615
Debt service	3,464,082
Educational programs	6,239,443
Unrestricted	(126,337,043)
Total net position	$ (59,593,647)

FULLERTON SCHOOL DISTRICT
Statement of Activities
For the Fiscal Year Ended June 30, 2018

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
Governmental Activities				
Instructional Services:				
Instruction	$ 100,478,052	$ 499	$ 17,175,543	$ (83,302,010)
Instruction-Related Services:				
Supervision of instruction	4,345,298	-	1,345,241	(3,000,057)
Instructional library, media and technology	5,762,360	-	73,446	(5,688,914)
School site administration	10,621,140	32	600,714	(10,020,394)
Pupil Support Services:				
Home-to-school transportation	2,640,841	-	-	(2,640,841)
Food services	5,994,801	1,217,106	4,286,688	(491,007)
All other pupil services	5,425,895	39	1,674,875	(3,750,981)
General Administration Services:				
Other general administration	7,274,362	58,703	653,294	(6,562,365)
Plant services	12,004,830	-	273,007	(11,731,823)
Debt issuance costs	230,081	-	-	(230,081)
Interest on long-term debt	1,433,836	-	-	(1,433,836)
Transfers between agencies	1,248,873	1,126	1,763,518	515,771
Depreciation (unallocated)	5,208,376	-	-	(5,208,376)
Total Governmental Activities	$ 162,668,745	$ 1,277,505	$ 27,846,326	$ (133,544,914)

General Revenues:	
Property taxes	56,814,892
Federal and state aid not restricted to specific purpose	61,133,609
Interest and investment earnings	588,855
Miscellaneous	3,493,991
Total general revenues	122,031,347
Change in net position	(11,513,567)
Net position - July 1, 2017, as originally stated	(25,908,541)
Restatement - Change in accounting principle	(22,171,539)
Net position - July 1, 2017, as restated	(48,080,080)
Net position - June 30, 2018	$ (59,593,647)

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS			
Cash	$ 36,015,674	$ 12,091,463	$ 48,107,137
Accounts receivable	5,334,184	763,632	6,097,816
Due from other funds	780,658	51,804	832,462
Inventories	23,085	92,227	115,312
Prepaid expenditures	223,481	2,699	226,180
Total Assets	$ 42,377,082	$ 13,001,825	$ 55,378,907
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	$ 7,017,053	$ 505,020	$ 7,522,073
Due to other funds	82,959	774,033	856,992
Unearned revenue	2,875	229,403	232,278
Total Liabilities	7,102,887	1,508,456	8,611,343
Fund Balances			
Nonspendable	296,566	95,746	392,312
Restricted	3,300,180	11,397,623	14,697,803
Assigned	5,626,636	-	5,626,636
Unassigned	26,050,813	-	26,050,813
Total Fund Balances	35,274,195	11,493,369	46,767,564
Total Liabilities and Fund Balances	$ 42,377,082	$ 13,001,825	$ 55,378,907

Total fund balances - governmental funds			$ 46,767,564
Amounts reported for assets and liabilities for governmental activities in the statement of net position are different from amounts reported in governmental funds because:			
In governmental funds, only current assets are reported. In the statement of net position, all assets are reported, including capital assets and accumulated depreciation.			
	Capital assets at historical cost:	185,126,038	
	Accumulated depreciation:	(99,802,928)	
	Net:		85,323,110
Deferred amounts on refunding represent amounts paid to an escrow agent in excess of the outstanding debt at the time of the payment for refunded bonds which have been defeased. In the government-wide statements it is recognized as a deferred outflow of resources. The remaining deferred amounts on refunding at the end of the period were:			1,105,510
In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred. The additional liability for unmatured interest owing at the end of the period was:			(311,673)
In governmental funds, only current liabilities are reported. In the statement of net position, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to government-wide statements, consist of:			
	General obligation bonds payable	34,409,303	
	Certificates of participation payable	4,810,000	
	Fullerton RDA loan payable	220,221	
	Capital leases payable	54,029	
	Early retirement incentive, net of short term portion	1,419,534	
	Compensated absences	1,582,627	
	Other postemployment benefits payable	33,307,786	
	Total		(75,803,500)
The net pension liability is not due and payable in the current reporting period, and therefore is not reported as a liability in the fund financial statements.			(149,449,341)
In governmental funds, deferred outflows and inflows of resources relating to pensions are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources relating to OPEB are reported.			(1,046,098)
In governmental funds, deferred outflows and inflows of resources relating to pensions are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources relating to pensions are reported.			
	Deferred outflows of resources relating to pensions	43,208,957	
	Deferred inflows of resources relating to pensions	(11,111,120)	
	Net:		32,097,837
Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because internal service funds are presumed to operate for the benefit of governmental activities, assets and liabilities of internal service funds are reported with governmental activities in the statement of net position. Net position for the internal service fund is:			1,722,944
Total net position - governmental activities			$ (59,593,647)

FULLERTON SCHOOL DISTRICT

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds

For the Fiscal Year Ended June 30, 2018

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES			
LCFF Sources	$ 108,826,552	$ -	$ 108,826,552
Federal Sources	6,494,434	4,372,989	10,867,423
Other State Sources	13,671,884	2,380,794	16,052,678
Other Local Sources	10,873,564	8,636,521	19,510,085
Total Revenues	139,866,434	15,390,304	155,256,738
EXPENDITURES			
Current:			
Instruction	96,070,465	3,419,312	99,489,777
Instruction-related services:			
Supervision of instruction	4,249,367	62,760	4,312,127
Instructional library, media and technology	5,415,124	-	5,415,124
School site administration	9,602,915	536,610	10,139,525
Pupil support services:			
Home-to-school transportation	2,382,248	-	2,382,248
Food services	472	5,680,011	5,680,483
All other pupil services	5,297,363	137,149	5,434,512
Ancillary Services	21,094	-	21,094
General administration services:			
Other general administration	6,949,849	-	6,949,849
Plant services	10,253,561	100,721	10,354,282
Transfers of indirect costs	(459,091)	459,091	-
Capital outlay	1,986,205	874,020	2,860,225
Intergovernmental	1,248,873	-	1,248,873
Debt service:			
Issuance costs	-	230,387	230,387
Principal	355,000	2,704,583	3,059,583
Interest	180,286	1,047,175	1,227,461
Total Expenditures	143,553,731	15,251,819	158,805,550
Excess (Deficiency) of Revenues Over (Under) Expenditures	(3,687,297)	138,485	(3,548,812)
OTHER FINANCING SOURCES (USES)			
Issuance of debt - refunding bonds	-	12,365,000	12,365,000
Transfers to escrow agent for defeased debt	-	(12,134,613)	(12,134,613)
Total Other Financing Sources and Uses	-	230,387	230,387
Net Change in Fund Balances	(3,687,297)	368,872	(3,318,425)
Fund Balances, July 1, 2017	38,961,492	11,124,497	50,085,989
Fund Balances, June 30, 2018	$ 35,274,195	$ 11,493,369	$ 46,767,564

FULLERTON SCHOOL DISTRICT

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities
For the Fiscal Year Ended June 30, 2018

Total net change in fund balances - governmental funds		$ (3,318,425)
Amounts reported for governmental activities in the statement of activities are different because:		
In governmental funds, the costs of capital assets are reported as expenditures in the period when the assets are acquired. In the statement of activities, costs of capital assets are allocated over their estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is:		
Expenditures for capital outlay	2,185,547	
Depreciation expense	(5,208,376)	
Net expense adjustment:		(3,022,829)
In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as a reduction of liabilities. Expenditures for repayment of the principal portion of long-term debt were:		14,374,583
The amounts paid to the refunded bond escrow agent in excess of the refunded bond at the time of payment are recorded as deferred amounts on refunding and are amortized to interest expense over the life of the liability. Deferred amounts incurred, less amortization of this amount during the year was:		(184,418)
In governmental funds, proceeds from debt issuance are recognized as other financing sources. In the government-wide statements, proceeds from debt issuance are reported as an increase to liabilities. Amounts recognized in governmental funds as proceeds from debt issuance were:		(12,365,000)
In governmental funds, if debt is issued at a premium or at a discount, the premium or discount is recognized as an other financing source or an other financing use in the period it is incurred. In the government-wide statements, the premium or discount is amortized as interest over the life of the debt. Amortization of premium or discount for the period is:		1,192,592
In governmental funds, accreted interest on capital appreciation bonds is not recorded as an expenditure from current resources. In the government-wide statement of activities, however, this is recorded as interest expense for the period:		(568,278)
In government-wide statements, expenses must be accrued in connection with any liabilities incurred during the period that are not expected to be liquidated with current financial resources, in addition to compensated absences and long-term debt. Examples include special termination benefits such as retirement incentives financed over time, and structured legal settlements. This year, expenses incurred for such obligations were:		(1,419,534)
In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period that it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period, was:		160,524
In governmental funds, pension costs are recognized when employer contributions are made. In the statement of activities pension costs are recognized on the accrual basis. This year, the difference between accrual-basis pension costs and actual employer contributions was:		(5,070,281)
In governmental funds, OPEB costs are recognized when employer contributions are made. In the statement of activities OPEB costs are recognized on the accrual basis. This year, the difference between accrual-basis OPEB costs and actual employer contributions was:		(1,678,518)
In the statement of activities, certain operating expenses - compensated absences and early retirement incentives, for example are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, amounts paid exceeded amounts earned by:		222,989
The internal service fund is used by management to charge the cost of self-insurance activities. The net revenue (expense) of the internal service fund is reported with governmental activities.		163,028
Change in net position - governmental activities		$ (11,513,567)

FULLERTON SCHOOL DISTRICT
Statement of Net Position – Proprietary Funds
June 30, 2018

	Governmental Activities
	Internal Service Fund
ASSETS	
Current:	
Cash	$ 4,242,172
Accounts receivable	11,836
Due from other funds	31,155
Total assets	4,285,163
LIABILITIES	
Accounts payable and accrued liabilities	48,593
Due to other funds	6,625
Estimated liability for open claims and IBNR	2,507,001
Total liabilities	2,562,219
NET POSITION	
Restricted	$ 1,722,944

	Governmental Activities Internal Service Fund
OPERATING REVENUES	
Charges to other funds	$ 1,912,615
OPERATING EXPENSES	
Current:	
Classified salaries	156,568
Employee benefits	76,978
Books and supplies	143,795
Services and other operating expenditures	1,423,588
Total operating expenses	1,800,929
Operating Income (Loss)	111,686
NON-OPERATING REVENUES	
Interest income	51,342
Change in net position	163,028
Net position, July 1, 2017	1,559,916
Net position, June 30, 2018	$ 1,722,944

FULLERTON SCHOOL DISTRICT
Statement of Cash Flows - Proprietary Funds
For the Fiscal Year Ended June 30, 2018

	Governmental Activities Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Received from in-district premiums	$ 1,896,919
Payments to employees and fringe benefits	(225,975)
Payments to vendors and suppliers	(169,592)
Payments on insurance claims	(1,306,543)
Other receipts (payments)	10,000
Net cash provided (used) by operating activities	204,809
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment income	42,827
Net increase (decrease) in cash	247,636
Cash, July 1, 2017	3,994,536
Cash, June 30, 2018	$ 4,242,172
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	$ 111,686
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Changes in assets, liabilities, and deferred outflows of resources:	
Receivables, net	10,000
Due from other funds	(15,696)
Estimated liability for open claims and IBNRs	117,045
Accounts payable and accrued liabilities	(18,817)
Due to other funds	591
Net cash (used) by operating activities	$ 204,809

FULLERTON SCHOOL DISTRICT
Statement of Fiduciary Net Position
June 30, 2018

	Agency Funds		
	Associated Student Body Funds	Debt Service Fund for Special Tax Bonds	Total
ASSETS			
Cash	$ 241,242	$ 18,682	$ 259,924
Investments	-	2,307,395	2,307,395
Accounts receivable	-	29,724	29,724
Total Assets	$ 241,242	$ 2,355,801	$ 2,597,043
LIABILITIES			
Accounts payable	$ -	$ 12,867	$ 12,867
Unearned revenue	-	1,760,320	1,760,320
Due to student groups	241,242	-	241,242
Due to bondholders	-	582,614	582,614
Total Liabilities	$ 241,242	$ 2,355,801	$ 2,597,043

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fullerton School District (the "District") accounts for its financial transactions in accordance with the policies and procedures of the California Department of Education's *California School Accounting Manual*. The accounting policies of the District conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. The following is a summary of the more significant policies:

A. Reporting Entity

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

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

For financial reporting purposes, the component units have a financial and operational relationship which meets the reporting entity definition criteria of the Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus – An Amendment of GASB Statements No. 14 and No. 34*, and thus are included in the financial statements using the blended presentation method as if they were part of the District's operations because the Board of Trustees of the component units is essentially the same as the Board of Trustees of the District and because their purpose is to finance the construction of facilities to be used for the direct benefit of the District.

The Fullerton School District Capital Facilities Corporation (the Corporation) financial activity are presented in the financial statements as the Capital Projects for Blended Component Units Fund and the Debt Service for Blended Component Units Fund. Certificates of participation and other debt issued by the Corporation are included as long-term liabilities in the government-wide financial statements. Individually prepared financial statements are not prepared for the Corporation.

The Fullerton School District Community Facilities Districts (CFDs) financial activity is presented in the financial statements as the Capital Projects Fund for Blended Component Units and in the Fiduciary Funds Statement as the Debt Service Fund for Special Tax Bonds. Special Tax Bonds issued by the CFDs are not included in the long-term obligations of the *Statement of Net Position* as they are not obligations of the District. Individually prepared financial statements are not prepared for each of the CFDs.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation, Basis of Accounting

1. Basis of Presentation

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

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) 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, including all taxes, are presented as general revenues.

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

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

Major Governmental Funds
The District maintains the following major governmental funds:

General Fund: This fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund. The District also maintained a Deferred Maintenance Fund. The Deferred Maintenance Fund does not meet the definition of special revenue funds as it is not primarily composed of restricted or committed revenue sources. Because this fund does not meet the definition of special revenue funds under GASB 54, the activity in that fund is being reported within the General Fund.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation, Basis of Accounting (continued)

1. Basis of Presentation (continued)

Non-Major Governmental Funds
The District maintains the following non-major governmental funds:

Special Revenue Fund:

Cafeteria Special Revenue Fund: This fund is used to account for revenues received and expenditures made to operate the District's food service operations.

Child Development Fund: This fund is used to account for resources committed to child development programs maintained by the District.

Capital Projects Funds:

Building Fund: This fund is used to account for the acquisition of major governmental capital facilities and buildings from the sale of general obligation bonds.

Capital Facilities Fund: This fund is used to account for resources received from developer impact fees assessed under provisions of the California Environmental Quality Act.

Special Reserve Fund for Capital Outlay Projects: This fund is used to account for funds set aside for Board designated construction projects.

Debt Service Fund:

Bond Interest and Redemption Fund: This fund is used to account for the accumulation of resources for, and the repayment of, District bonds, interest, and related costs.

Proprietary Funds
Proprietary fund reporting focuses on the determination of operating income, changes in Net Position, financial position, and cash flows. Proprietary funds are classified as enterprise or internal service. The District has the following proprietary fund:

Self-Insurance Fund: This fund may be used to account for any activity for which goods or services are provided to other funds of the District in return for a fee to cover the cost of operations. The District operates a workers' compensation program that is accounted for in a self-insurance service fund.

Fiduciary Funds
Fiduciary fund reporting focuses on net position and changes in net position. Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore cannot be used to support the District's own programs. The fiduciary fund category includes pension (and other employee benefit) trust funds, investment trust funds, private-purpose trust funds, and agency funds.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation, Basis of Accounting (continued)

1. Basis of Presentation (continued)

Fiduciary Funds (continued)
The District maintains the following fiduciary funds:

Debt Service Fund for Special Tax Bonds: This fund is used to account for the accumulation of resources for the payment of principal and interest on bonds issued by Mello-Roos Community Facilities Districts that are considered blended component units of the District.

Agency Funds: The District maintains a separate agency fund for each school that operates an Associated Student Body (ASB) Fund, whether it is organized or not.

2. Measurement Focus, Basis of Accounting

Government-Wide, Proprietary, and Fiduciary Fund Financial Statements
The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements
Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and financing from capital leases are reported as other financing sources.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation, Basis of Accounting (continued)

3. Revenues - Exchange and Non-Exchange Transactions (continued)
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 requirements. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

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

D. Encumbrances
Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid. All encumbrances are liquidated as of June 30.

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

1. Cash and Cash Equivalents
The District considers cash and cash equivalents to be cash on hand and demand deposits. In addition, because the Treasury Pool is sufficiently liquid to permit withdrawal of cash at any time without prior notice or penalty, equity in the pool is also deemed to be a cash equivalent.

2. Inventories and Prepaid Items
Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

3. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets, donated works of art and similar items, and capital assets received in a service concession arrangement are reported at acquisition value rather than fair value. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Description	Estimated Lives
Buildings and Improvements	25-50 years
Furniture and Equipment	15-20 years
Vehicles	8 years

4. 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 combined balance sheet and revenue is recognized.

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

5. Deferred Outflows/Inflows of Resources

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

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

6. Compensated Absences

The liability for compensated absences reported in the government-wide statements consists of unpaid, accumulated annual vacation leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

7. 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 Fullerton School District Retiree Benefits Plan ("the Plan") and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, the Plan 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.

8. 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 District's California State Teachers Retirement System (CalSTRS) and California Public Employees' Retirement System (CalPERS) plans and addition 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. Investments are reported at fair value.

9. Fund Balances

The fund balance for governmental funds is reported in classifications based on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

Nonspendable: Fund balance is reported as nonspendable when the resources cannot be spent because they are either in a nonspendable form or legally or contractually required to be maintained intact. Resources in nonspendable form include inventories and prepaid assets.

Restricted: Fund balance is reported as restricted when the constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provision or by enabling legislation.

Committed: The District's highest decision-making level of authority rests with the District's Board. Fund balance is reported as committed when the Board passes a resolution that places specified constraints on how resources may be used. The Board can modify or rescind a commitment of resources through passage of a new resolution.

Assigned: Resources that are constrained by the District's intent to use them for a specific purpose, but are neither restricted nor committed, are reported as assigned fund balance. Intent may be expressed by either the Board, committees (such as budget or finance), or officials to which the Board has delegated authority.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

9. Fund Balances (continued)

Unassigned: Unassigned fund balance represents fund balance that has not been restricted, committed, or assigned and may be utilized by the District for any purpose. When expenditures are incurred, and both restricted and unrestricted resources are available, it is the District's policy to use restricted resources first, then unrestricted resources in the order of committed, assigned, and then unassigned, as they are needed.

10. Net Position

Net position is classified into three components: net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

- **Net investment in capital assets -** This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

- **Restricted -** This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

- **Unrestricted net position -** This component of net position consists of net position that does not meet the definition of "net investment in capital assets" or "restricted".

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

F. Minimum Fund Balance Policy

During the 2010-11 fiscal year, pursuant to GASB Statement No. 54, the District adopted a minimum fund balance policy for the General Fund in order to protect the District against revenue shortfalls or unpredicted expenditures. The policy requires a Reserve for Economic Uncertainties consisting of unassigned amounts equal to no less than three percent of total General Fund expenditures and other financing uses.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Property Tax Calendar

The County is responsible for the assessment, collection, and apportionment of property taxes for all jurisdictions including the schools and special districts within the County. The Board of Supervisors levies property taxes as of September 1 on property values assessed on July 1. Secured property tax payments are due in two equal installments. The first is generally due November 1 and is delinquent with penalties on December 10, and the second is generally due on February 1 and is delinquent with penalties on April 10. Secured property taxes become a lien on the property on January 1.

H. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reported period. Actual results could differ from those estimates.

I. New GASB Pronouncements

During the 2017-18 fiscal year, the following GASB Pronouncements became effective:

1. 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.

2. In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. New GASB Pronouncements (continued)

3. 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
   - Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

4. 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.

NOTE 2 – CASH AND INVESTMENTS

Cash and investments at June 30, 2018, are reported at fair value and consisted of the following:

		Governmental Activities			
		Governmental Funds	Proprietary Fund	Total	Fiduciary Funds
Pooled Funds:					
Cash in county treasury		$ 45,577,818	$ 4,117,172	$ 49,694,990	$ 18,682
Cash with fiscal agent		143,600	-	143,600	-
Total Pooled Funds		45,721,418	4,117,172	49,838,590	18,682
Deposits:					
Cash on hand and in banks		2,334,899	-	2,334,899	241,242
Cash in revolving fund		50,820	125,000	175,820	-
Total Deposits		2,385,719	125,000	2,510,719	241,242
Total Cash		$ 48,107,137	$ 4,242,172	$ 52,349,309	$ 259,924
	Rating:				
Investments:					
US Bank - Money Market	N/A				$ 2,307,395

Pooled Funds
In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the County Treasury. The County pools and invests the cash. These pooled funds are carried at cost which approximates fair value. Interest earned is deposited annually to participating funds. Any investment losses are proportionately shared by all funds in the pool.

Because the District's deposits are maintained in a recognized pooled investment fund under the care of a third party and the District's share of the pool does not consist of specific, identifiable investment securities owned by the District, no disclosure of the individual deposits and investments or related custodial credit risk classifications is required.

In accordance with applicable state laws, the County Treasurer may invest in derivative securities with the State of California. However, at June 30, 2018, the County Treasurer has represented that the Pooled Investment Fund contained no derivatives or other investments with similar risk profiles.

Custodial Credit Risk – Deposits
Custodial credit risk 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. Cash balances held in banks are insured up to $250,000 by the Federal Depository Insurance Corporation (FDIC) and are collateralized by the respective financial institutions. In addition, 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).

NOTE 2 – CASH AND INVESTMENTS (continued)

Custodial Credit Risk – Deposits (continued)
The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits.

As of June 30, 2018, $3,232,803 of the District's bank balance was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agency, but not in the name of the District.

Investments – Interest Rate Risk
The District's investment policy limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District's investment policy limits investment purchases to investments with a term not to exceed three years. Investments purchased with maturity terms greater than three years require approval by the Board of Education. Investments purchased with maturities greater than one year require written approval by the Superintendent prior to commitment.

Maturities of investments held at June 30, 2018, consist of the following:

		Maturity		
	Fair Value	Less Than One Year	One Year Through Five Years	Fair Value Measurement
Investment maturities:				
U.S. Bank - Money Market	$ 2,307,395	$ 2,307,395	$ -	Level 2

Investments – Credit Risk
The District's investment policy limits investment choices to obligations of local, state and federal agencies, commercial paper, certificates of deposit, repurchase agreements, corporate notes, banker acceptances, and other securities allowed by State Government Code Section 53600. At June 30, 2018, all investments represented governmental securities which were issued, registered and held by the District's agent in the District's name.

Investments – Concentration of Credit Risk
The District does not place limits on the amount it may invest in any one issuer. At June 30, 2018, the District had the following investment that represents more than five percent of the District's net investments.

U.S. Bank - Money Market	100%

NOTE 2 – CASH AND INVESTMENTS (continued)

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

All assets have been valued using a market approach, with quoted market prices.

NOTE 3 – ACCOUNTS RECEIVABLE

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

	General Fund	Non-Major Governmental Funds	Total Governmental Funds	Proprietary Fund
Federal Government:				
Categorical aid programs	$ 2,833,424	$ 521,185	$ 3,354,609	$ -
State Government:				
Lottery	573,606	-	573,606	-
Child Nutrition	-	32,509	32,509	-
Categorical aid programs	615,234	177,400	792,634	-
Local:				
Special education	592,847	-	592,847	-
Interest	118,772	15,564	134,336	11,836
Other local	600,301	16,974	617,275	-
Total	$ 5,334,184	$ 763,632	$ 6,097,816	$ 11,836

NOTE 4 – INTERFUND TRANSACTIONS

Balances Due To/From Other Funds

Balances due to/from other funds at June 30, 2018, consisted of the following:

	General Fund	Non-Major Governmental Funds	Proprietary Fund	Total
General Fund	$ -	$ 51,804	$ 31,155	$ 82,959
Non-Major Funds	774,033	-	-	774,033
Proprietary Fund	6,625	-	-	6,625
Total	$ 780,658	$ 51,804	$ 31,155	$ 863,617

General Fund due to Child Development Fund for revenues, indirect costs, and expenditure reimbursement	$ 51,804
General Fund due to Self-Insurance Fund for workers' compensation expense	31,155
Child Development Fund due to General Fund for payroll, program and indirect costs	130,144
Cafeteria Special Revenue Fund due to General Fund for payroll and program costs	641,013
Capital Facilities Fund due to General Fund for payroll expense and program costs	2,876
Self-Insurance Fund due to General Fund for payroll expense	6,625
Total	$ 863,617

NOTE 5 – FUND BALANCES

At June 30, 2018, fund balances of the District's governmental funds were classified as follows:

	General Fund	Non-Major Governmental Funds	Total
Nonspendable:			
Revolving cash	$ 50,000	$ 820	$ 50,820
Stores inventories	23,085	92,227	115,312
Prepaid expenditures	223,481	2,699	226,180
Total Nonspendable	296,566	95,746	392,312
Restricted:			
Categorical programs	3,300,180	-	3,300,180
Child development program	-	785,437	785,437
Child nutrition program	-	2,058,080	2,058,080
Capital projects	-	5,090,024	5,090,024
Debt service	-	3,464,082	3,464,082
Total Restricted	3,300,180	11,397,623	14,697,803
Assigned:			
LCFF Supplemental	714,938	-	714,938
LCFF Base	477,409	-	477,409
Ed Services/One-time Mandated Cost	373,365	-	373,365
St. Jude Grant	5,382	-	5,382
Textbook Adoptions	3,400,000	-	3,400,000
Deferred Maintenance	600,000	-	600,000
Deferred Maintenance program	55,542	-	55,542
Total Assigned	5,626,636	-	5,626,636
Unassigned:			
Reserve for economic uncertainties	4,298,566	-	4,298,566
Remaining unassigned balances	21,752,247	-	21,752,247
Total Unassigned	26,050,813	-	26,050,813
Total	$ 35,274,195	$ 11,493,369	$ 46,767,564

NOTE 6 – CAPITAL ASSETS AND DEPRECIATION

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

	Balance, July 1, 2017	Additions	Retirements	Balance, June 30, 2018
Capital assets not being depreciated:				
Land	$ 9,198,655	$ -	$ -	$ 9,198,655
Construction in progress	3,812,604	163,923	3,812,604	163,923
Total capital assets not being depreciated	13,011,259	163,923	3,812,604	9,362,578
Capital assets being depreciated:				
Improvement of sites	21,364,571	760,014	-	22,124,585
Buildings and improvements	135,339,065	4,761,913	-	140,100,978
Machinery and equipment	13,345,584	312,301	119,988	13,537,897
Total capital assets being depreciated	170,049,220	5,834,228	119,988	175,763,460
Accumulated depreciation for:				
Improvement of sites	(17,806,552)	(209,848)	-	(18,016,400)
Buildings and improvements	(66,048,254)	(4,386,365)	-	(70,434,619)
Machinery and equipment	(10,859,734)	(612,163)	(119,988)	(11,351,909)
Total accumulated depreciation	(94,714,540)	(5,208,376)	(119,988)	(99,802,928)
Total capital assets being depreciated, net	75,334,680	625,852	-	75,960,532
Governmental activity capital assets, net	$ 88,345,939	$ 789,775	$ 3,812,604	$ 85,323,110

NOTE 7 – GENERAL LONG-TERM DEBT

Changes in long-term debt for the year ended June 30, 2018, were as follows:

	Balance, July 1, 2017	Additions	Deductions	Advance Refundings	Balance, June 30, 2018	Amount Due Within One Year
General Obligation Bonds:						
Principal payments	$ 28,730,458	$ 12,365,000	$ 2,660,000	$ 11,315,000	$ 27,120,458	$ 2,995,000
Accreted interest	5,552,012	568,278	-	-	6,120,290	-
Unamortized issuance premium	2,361,147	-	239,376	953,216	1,168,555	372,294
Total General Obligation Bonds	36,643,617	12,933,278	2,899,376	$ 12,268,216	34,409,303	3,367,294
Certificates of Participation	5,165,000	-	355,000	-	4,810,000	365,000
Fullerton RDA Loan	251,681	-	31,460	-	220,221	31,460
Early Retirement Incentive	-	1,774,418	-	-	1,774,418	354,884
Capital Leases	67,152	-	13,123	-	54,029	14,086
Compensated Absences	1,805,616	-	222,989	-	1,582,627	-
Other Postemployment Benefits	32,675,366	3,418,677	2,786,257	-	33,307,786	-
Totals	$ 76,608,432	$ 18,126,373	$ 6,308,205	$ 12,268,216	$ 76,158,384	$ 4,132,724

Note: Beginning balance of OPEB liability has been restated due to the implementation of GASB Statement No.75

Payments for general obligation bonds are made by the Bond Interest and Redemption Fund. Certificates of Participation payments are made by the General Fund. Capital leases payments are made by the General Fund. RDA loan payments are made from the Capital Facilities Fund. Accumulated vacation, early retirement incentive, pensions, and other postemployment benefits will be paid for by the fund for which the employee worked.

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

A. General Obligation Bonds

On March 5, 2002, a special election was held at which more than 55 percent of the voters in the District approved Measure "CC", which authorized the issuance and sale of $49.7 million of general obligation bonds. The bonds are general obligations of the District, and the County is obligated to annually levy ad valorem taxes for the payment of the interest on, and the principal of the bonds. The bonds were issued to finance the construction of new facilities, such as multipurpose rooms, and renovation and improvement at existing schools and to fund a portion of the cost of construction of a new elementary school.

2010 General Obligation Refunding Bonds

On December 1, 2010, the District issued $27,645,000 of 2010 General Obligation Refunding Bonds. The bonds consist of serial bonds bearing fixed rates ranging from 2.0% to 5.0% with annual maturities from August 2011 through August 2026. The net proceeds of $30,215,831 (after issuance costs of $389,721, plus premium of $2,960,552) were used to advance refund $27,645,000 of the District's outstanding Election of 2002, Series A General Obligation Bonds, in addition to paying the costs of issuance associated with the refunding bonds. Amounts paid to the refunded bond escrow agent in excess of the outstanding debt at the time of payment are recorded as deferred amounts on the refunding on the statement of net position and are amortized to interest expense over the life of the liability. Deferred amounts on the refunding of $410,584 remain to be amortized. As of June 30, 2018, all principal balance on the defeased debt was paid.

2014 Refunding General Obligation Bonds

On September 18, 2014, the District issued $6,080,000 of General Obligation Refunding Bonds. The bonds bear fixed interest rates between 3.0% and 5.0% with annual maturities from August 1, 2015 through August 1, 2026. The net proceeds of $6,685,239 (after premiums of $782,710 and issuance costs of $177,471) were used to prepay the District's outstanding General Obligation Bonds. Amounts paid to the escrow agent in excess of the outstanding debt at the time of payment are recorded as deferred charges on refunding on the statement of net assets and are amortized to interest expense over the life of the liability. Deferred amounts on refunding of $119,825 remain to be amortized. As of June 30, 2018, all principal balance on the defeased debt was paid.

2018 General Obligation Refunding Bonds

On February 14, 2018, the District issued $12,365,000 of General Obligation Refunding Bonds. The bonds bear fixed interest rates ranging between 1.89% and 3.16% with annual maturities from August 1, 2018 through August 1, 2026. The net proceeds of $12,134,613 (after issuance costs of $230,387) were used to prepay a portion of the District's outstanding General Obligation Refunding Bonds of 2010, in addition to paying the costs of issuance associated with the refunding bonds. Amounts paid to the refunded bond escrow agent in excess of the outstanding debt at the time of payment are recorded as deferred amounts on refunding on the statement of net assets and are amortized to interest expense over the life of the liability. Deferred amounts of refunding of $475,552 remain to be amortized.

The net proceeds were used to purchase U.S. government securities. Those securities were deposited into an irrevocable trust with an escrow agent to provide for future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased, and the related liability for the bonds has been removed from the District's liabilities. As of June 30, 2018, the principal balance outstanding on the defeased debt amounted to $11,315,000.

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

A. General Obligation Bonds (continued)

2018 General Obligation Refunding Bonds (continued)
The refunding decreased the District's total debt service payments by $558,795. The transaction resulted in an economic gain (difference between the present value of the debt service on the old and the new bonds) of $458,084.

A summary of outstanding general obligation bonds issued is presented below:

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Balance, July 1, 2017	Additions	Deductions	Advance Refundings	Balance June 30, 2018
2002 A	7/3/2002	8/1/2023	3.25%-5.375%	$ 40,000,458	$ 4,545,458	$ -	$ -		$ 4,545,458
2010 Ref.	12/1/2010	8/1/2026	2.0%-5.0%	27,645,000	18,605,000	-	2,215,000	11,315,000	5,075,000
2014 Ref.	9/18/2014	8/1/2026	3.0%-5.0%	6,080,000	5,580,000	-	445,000		5,135,000
2018 Ref	2/14/2018	8/1/2026	1.89%-3.16%	12,365,000	-	12,365,000	-	-	12,365,000
				$ 86,090,458	$ 28,730,458	$ 12,365,000	$ 2,660,000	$ 11,315,000	$ 27,120,458

The annual requirements to amortize all general obligation bonds payable outstanding as of June 30, 2018, were as follows:

Fiscal Year	Principal	Interest	Total
2018-19	$ 2,995,000	$ 722,232	$ 3,717,232
2019-20	3,330,000	599,698	3,929,698
2020-21	1,892,188	3,138,580	5,030,768
2021-22	1,899,698	3,269,556	5,169,254
2022-23	1,907,802	3,406,113	5,313,915
2023-27	15,095,770	2,873,112	17,968,882
Total	$ 27,120,458	$ 14,009,291	$ 41,129,749

B. Certificates of Participation

2011 Refunding Certificates of Participation
On November 10, 2011, the District issued $6,935,000 of Refunding Certificates of Participation. The Certificates bear fixed interest rates averaging 3.4% with annual maturities from June 1, 2012 through June 1, 2029. The net proceeds of $6,832,899 (after issuance costs of $102,101) were used to prepay the District's outstanding Certificates of Participation.

The net proceeds were used to purchase U.S. government securities. Those securities were deposited into an irrevocable trust with an escrow agent to provide for future debt service payments on the refunded certificates. As a result, the refunded certificates are considered to be defeased, and the related liability for the certificates has been removed from the District's liabilities. Amounts paid to the escrow agent in excess of the outstanding debt at the time of payment are recorded as deferred amounts on refunding on the statement of net position and are amortized to interest expense over the life of the liability. Deferred amounts on refunding of $99,549 remain to be amortized.

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

B. Certificates of Participation (continued)

As of June 30, 2018, the annual requirements to amortize all certificates were as follows:

Fiscal Year	Principal	Interest	Total
2018-19	$ 365,000	$ 141,600	$ 506,600
2019-20	380,000	130,575	510,575
2020-21	395,000	118,950	513,950
2021-22	405,000	107,100	512,100
2022-23	420,000	94,800	514,800
2023-28	2,330,000	274,350	2,604,350
2028-29	515,000	11,550	526,550
Total	$ 4,810,000	$ 878,925	$ 5,688,925

C. Fullerton Redevelopment Agency Loan

An agreement was entered into May 16, 2000 for the Fullerton Redevelopment Agency to loan $1,320,000 to the District for the expansion of Maple Elementary School. The District received the proceeds from the loan July, 2000. The loan does not accrue interest. Payments are due each July beginning in 2001 for 25 years.

The payment amount is based on the outstanding loan balance at each June 30. Repayment requirements on the June 30, 2018 balance are as follows:

Fiscal Year	Principal
2018-19	$ 31,460
2019-20	31,460
2020-21	31,460
2021-22	31,460
2022-23	31,460
2023-25	62,921
Total	$ 220,221

D. Capital Leases

The District leases equipment valued at $654,250 under agreements that provide for title to pass upon expiration of the lease period. Future minimum lease payments are as follows:

Year	Principal	Interest
2018-19	$ 14,086	$ 3,544
2019-20	15,125	2,507
2020-21	16,246	1,385
2021-22	8,572	244
Total	$ 54,029	$ 7,680

The District will receive no sublease rental revenues nor pay any contingent rentals for the equipment.

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

E. Early Retirement

The District has established a supplemental early retirement incentive program (SERP) whereby certain qualified employees may retire and receive a portion of their salary paid out as an annuity. The total future payments owing at June 30, 2018, for these obligations are shown below:

Fiscal Year	Payment
2018-19	$ 354,884
2019-20	354,884
2020-21	354,884
2021-22	354,883
2022-23	354,883
	$ 1,774,418

F. Non-Obligatory Debt

Non-obligatory debt relates to debt issuances by the Community Facility Districts, as authorized by the Mello-Roos Community Facilities Act of 1982 as amended, and the Marks-Roos Local Bond Pooling Act of 1985, and are payable from special taxes levied on property within the Community Facilities Districts according to a methodology approved by the voters within the District. Neither the faith and credit nor taxing power of the District is pledged to the payment of the bonds. Reserves have been established from the bond proceeds to meet delinquencies should they occur. If delinquencies occur beyond the amounts held in those reserves, the District has no duty to pay the delinquency out of any available funds of the District. The District acts solely as an agent for those paying taxes levied and the bondholders, and may initiate foreclosure proceedings.

On August 8, 2013, the Fullerton School District Financing Authority issued $16,475,000 in special tax revenue refunding bonds. The bonds were issued to refund two outstanding bonds previously issued by the Community Facilities Districts formed by Fullerton School District. The bonds carry stated interest rates ranging between 2.00% - 5.25% and fully mature in September 2031. Special assessment debt of $13,735,000 as of June 30, 2018, does not represent debt of the District and, as such, does not appear in the financial statements.

NOTE 8 – JOINT POWERS AGREEMENTS

The Fullerton School District participates in two joint ventures under a joint powers agreement (JPA), the Schools Excess Liability Fund (SELF) and Alliance of Schools for Cooperative Insurance Programs (ASCIP). The relationship between the Fullerton School District and the JPAs is such that the JPAs are not a component unit of the District for financial reporting purposes as explained below:

NOTE 8 – JOINT POWERS AGREEMENTS (continued)

SELF arranges for and provides a self-funded excess liability fund for approximately 1,100 public educational agencies. ASCIP arranges for and provides property and liability insurance for its member school districts. The JPAs are governed by boards consisting of representatives from certain member districts. The Boards control the operation of the JPAs, including selection of management and approval of operating budgets, independent of any influence by the members beyond their representation of the Board. Each member pays an annual contribution based upon that calculated by the JPAs' Boards and shares surpluses and deficits proportionately to its participation in the JPAs.

The Fullerton School District also participates in a JPA that meets the definition of a component unit, as described below:

The Fullerton School District Financing Authority is a joint exercise of powers agency comprised of the Fullerton School District and Community Facilities District No. 2000-1. Its purpose is to provide financing and refinancing for public capital improvements.

Condensed financial information is as follows:

	SELF June 30, 2017	ASCIP June 30, 2017	FSD Finance Authority June 30, 2018
Total Assets	$ 126,226,732	$ 432,804,369	$ 1,728,497
Deferred outflows-pensions	353,399	1,683,588	-
Total Liabilities	104,103,406	239,767,762	-
Deferred inflows-pensions	47,698	604,583	-
Net Position	$ 22,429,027	$ 194,115,612	$ 1,728,497
Total Revenues	$ 14,352,055	$ 268,744,570	$ 1,700,752
Total Expenses	13,352,806	262,183,364	1,689,412
Total Non-Operating Revenues (Expense)	(104,843)	2,739,535	-
Change in Net Position	$ 894,406	$ 9,300,741	$ 11,340

NOTE 9 – COMMITMENTS AND CONTINGENCIES

A. State and Federal Allowances, Awards, and Grants
The District has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursement will not be material.

B. Construction Commitments
As of June 30, 2018, the District had commitments with respect to unfinished capital projects of approximately $1.6 million to be paid from a combination of State and local funds.

C. Litigation
The District is the defendant in a number of lawsuits arising principally in the normal course of operations. In the opinion of the administration, the outcome of these lawsuits will not have a materially adverse effect on the accompanying financial statements and accordingly, no provision for losses has been recorded beyond claims payable and incurred but not reported reserves established in the Self-Insurance Internal Service Fund.

NOTE 10 – RISK MANAGEMENT

Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2018, the District was self-insured for property and liability losses with specific deductibles, but participated in the ASCIP public entity risk pool for excess property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years.

Workers' Compensation

For fiscal year 2018, the District was self-funded for workers compensation, with coverage purchased from a private insurer for claims in excess of the $1.0 million retention amount.

Employee Medical Benefits

The District has contracted through Self-Insured Schools of California (SISC), Anthem Blue Cross and Kaiser Permanente to provide employee medical and surgical benefits, Delta Dental and Deltacare USA for dental benefits and Vision Service Plan (VSP).

Claims Liability

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

Unpaid Claims Liabilities

The District establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses.

The following represent the changes in approximate aggregate liabilities for the District from July 1, 2016 to June 30, 2018:

	Workers' Compensation
Liability Balance, July 1, 2016	$ 2,289,691
Claims and changes in estimates	1,447,661
Claims payments	(1,347,396)
Liability Balance, June 30, 2017	2,389,956
Claims and changes in estimates	1,540,633
Claims payments	(1,423,588)
Liability Balance, June 30, 2018	$ 2,507,001
Assets available to pay claims at June 30, 2018	$ 4,285,163

NOTE 11 – PENSION PLANS

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

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:

Pension Plan	Net Pension Liability	Deferred Outflows of Resources	Deferred Inflows of Resources	Pension Expense
CalSTRS	$ 109,180,387	$ 30,013,338	$ 10,637,003	$ 11,246,000
CalPERS	40,268,954	13,195,619	474,117	7,688,794
Total	$ 149,449,341	$ 43,208,957	$ 11,111,120	$ 18,934,794

The details of each plan are as follows:

A. 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% 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.

NOTE 11 – PENSION PLANS (continued)

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

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

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

	STRP Defined Benefit Program	
	On or before	On or after
Hire Date	December 31, 2012	January 1, 2013
Benefit Formula	2% at 60	2% at 62
Benefit Vesting Schedule	5 years of service	5 years of service
Benefit Payments	Monthly for life	Monthly for life
Retirement Age	60	62
Monthly Benefits as a Percentage of Eligible Compensation	2.0%-2.4%	2.0%-2.4%
Required Employee Contribution Rate	10.25%	9.205%
Required Employer Contribution Rate	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% 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 $9,382,636.

Pension Liabilities, Pension Expenses, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions
At June 30, 2018, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related state support and the total portion of the net pension liability that was associated with the District were as follows:

Total net pension liability, including State share:		
District's proportionate share of net pension liability	$	109,180,387
State's proportionate share of the net pension liability associated with the District		25,497,837
Total	$	134,678,224

NOTE 11 – PENSION PLANS (continued)

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

Pension Liabilities, Pension Expenses, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)
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 proportions of the net pension liability for the two most recent measurement periods were:

	Percentage Share of Risk Pool		
	Fiscal Year Ending June 30, 2018	**Fiscal Year Ending June 30, 2017**	**Change Increase/ (Decrease)**
Measurement Date	June 30, 2017	June 30, 2016	
Proportion of the Net Pension Liability	0.118058%	0.120000%	-0.001942%

For the year ended June 30, 2018, the District recognized pension expense of $11,246,000. In addition, the District recognized pension expense and revenue of $1,151,008 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	$ 9,382,636	$ -
Net change in proportionate share of net pension liability	-	5,824,943
Difference between projected and actual earnings on pension plan investments	-	2,907,778
Changes of assumptions	20,226,942	-
Differences between expected and actual experience in the measurement of the total pension liability	403,760	1,904,282
Total	$ 30,013,338	$ 10,637,003

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

NOTE 11 – PENSION PLANS (continued)

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

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	$ (547,376)
2020	3,699,184
2021	2,133,730
2022	(713,838)
2023	2,090,048
Thereafter	3,331,951
Total	$ 9,993,699

Actuarial Methods and Assumptions

Total pension liability for STRS 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, 2010 through June 30, 2015
Actuarial Cost Method	Entry age normal
Investment Rate of Return	7.1%
Consumer Price of Inflation	2.75%
Wage Growth	3.5%

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 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 our members. The projection scale was set equal to 110% of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table, issued by the Society of Actuaries.

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.

NOTE 11 – PENSION PLANS (continued)

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

Actuarial Methods and Assumptions (continued)
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 7.1%. 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 (7.1%) 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%)	$ 160,311,470
Current discount rate (7.10%)	109,180,387
1% increase (8.10%)	67,684,048

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 $5,252,566 (9.328% of annual payroll). Under accounting principles generally accepted in the United States of America, these amounts are reported as revenues and expenditures. On behalf payments have been included in the budgeted amounts reported in the General Fund - Budgetary Comparison Schedule.

NOTE 11 – PENSION PLANS (continued)

B. California Public Employees Retirement System (CalPERS)

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

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2016 annual actuarial valuation report, Schools Pool Actuarial Valuation. This report and CalPERS audited financial information are publically available reports that can be found on the CalPERS website under Forms and Publications at: https://www.calpers.ca.gov/page/forms-publications.

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

The CalPERS provisions and benefits in effect at June 30, 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%	6.00%
Required Employer Contribution Rate	15.531%	15.531%

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.

NOTE 11 – PENSION PLANS (continued)

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

Contributions (continued)
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 $3,330,869.

Pension Liabilities, Pension Expenses, 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 $40,268,954. 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 proportions of the net pension liability for the two most recent measurement periods were:

	Percentage Share of Risk Pool		
	Fiscal Year Ending June 30, 2018	**Fiscal Year Ending June 30, 2017**	**Change Increase/ (Decrease)**
Measurement Date	June 30, 2017	June 30, 2016	
Proportion of the Net Pension Liability	0.168682%	0.167300%	0.001382%

For the year ended June 30, 2018, the District recognized pension expense of $7,688,794. 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	$ 3,330,869	$ -
Net change in proportionate share of net pension liability	1,147,135	-
Difference between projected and actual earnings on pension plan investments	1,393,030	-
Changes of assumptions	5,881,914	474,117
Differences between expected and actual experience in the measurement of the total pension liability	1,442,671	-
Total	$ 13,195,619	$ 474,117

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. The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, changes of assumptions, and differences between expected and actual experience in the measurement of the total pension liability will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is 4 years.

NOTE 11 – PENSION PLANS (continued)

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

Pension Liabilities, Pension Expenses, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)
Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	$ 2,754,783
2020	4,367,712
2021	2,974,179
2022	(706,041)
2023	-
Thereafter	-
Total	$ 9,390,633

Actuarial Methods and Assumptions
Total pension liability for 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, 2017
Experience Study	July 1, 1997 through June 30, 2011
Actuarial Cost Method	Entry age normal
Discount Rate	7.15%
Consumer Price of Inflation	2.75%
Wage Growth	Varies by entry age and service

Mortality assumptions are based on mortality rates resulting from the most recent CalPERS experience study adopted by the CalPERS Board. For purposes of the post-retirement mortality rates, those revised rates include 20 years of mortality improvements, using Scale BB published by the Society of Actuaries.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first ten years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and adjusted to account for assumed administration expenses.

NOTE 11 – PENSION PLANS (continued)

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

Actuarial Methods and Assumptions (continued)
The target asset allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global Equity	47%	5.38%
Fixed Income	19%	2.27%
Inflation Assests	6%	1.39%
Private Equity	12%	6.63%
Real Estate	11%	5.21%
Infrastructure and Forestland	3%	5.36%
Liquidity	2%	-0.90%

Discount Rate
The discount rate used to measure the total pension liability was 7.15%. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Based on these assumptions, the School Employer Pool fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

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

Discount Rate	Net Pension Liability
1% decrease (6.15%)	$ 59,248,536
Current discount rate (7.15%)	40,268,954
1% increase (8.15%)	24,523,802

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

D. Payables to the Pension Plans
At June 30, 2018, the District reported payables of $179,272 for the outstanding amount of legally required contributions to the CalPERS pension plan required for the fiscal year ended June 30, 2018.

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS

A. General Information about the OPEB Plan

Plan description
The District's defined benefit OPEB plan provides medical, dental and vision insurance benefits to eligible retirees and their spouses. The authority to establish and amend the benefit terms and financing requirements are governed by collective bargaining agreements with plan members. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement 75.

Benefits provided
Certificated, Classified and Management employees may retire with District-paid health benefits after completing at least 10 years of District service and attainment of age 55. Certificated employees must have 10 years of full-time service with the District to be eligible. Classified employees may become eligible based on part-time service, with their District contributions pro-rated for full-time equivalency less than 100%. Management employees may have up to five years of management work in another district credited towards the 10-year requirement. The postretirement health plans and the District's obligation vary by employee group as described below.

Certificated Employees
Certificated retirees receive a District contribution equal to the single-party medical premium and dental PPO premium. Spouses may be covered at the retiree's expense; however, if the retiree elects one of the HMO options, the District will contribute towards spousal coverage in an amount equal to the excess of the PPO premium over the single premium for the selected HMO.

Classified Employees
Classified retirees receive a District contribution equal to the single-party medical and dental premiums and the two-party vision premium. Spouses may be covered, and the District will contribute an amount equal on behalf of the spouse equal to the excess of the average of the HMO two-party premiums over the single premium for the coverage selected. District contributions are pro-rated for part-time service.

Management Employees
Management retirees receive a District contribution equal to the single-party medical, dental and vision premiums. Spouses may be covered, and the District will contribute an amount on behalf of the spouse equal to the excess of the highest two-party HMO premium over the single premium for the coverage selected.

The District's contribution ends at age 65 in all cases, except that one retired Superintendent is receiving lifetime supplemental coverage and five Management retirees over age 65 are currently receiving a District contribution equal to the excess of the vision rate over the single COBRA rate. There are also two spouses over age 65 receiving a coverage until each member's age 65. Retired Superintendents and Assistant Superintendents have slightly different provisions apply but in all cases except those mentioned above, benefits end at age 65.

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (continued)

A. General Information about the OPEB Plan (continued)

Employees covered by benefit terms
At June 30, 2018, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	96
Active employees	1,083
Total	1,179

Medicare Premium Payment (MPP) Program
The Medicare Premium Payment Program is a cost-sharing multiple-employer other postemployment benefit plan established pursuant to Chapter 1032, Statutes of 2000 (SB 1435). CalSTRS administers the MPP Program, through the Teachers' Health Benefit Fund. The MPP Program pays Medicare Part A premiums and Medicare Parts A and B late enrollment surcharges for eligible members of the Defined Benefit 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 on a monthly basis.

B. Total OPEB Liability
The District's total OPEB liability of $32,517,273 for the District Plan was measured as of June 30, 2018, and was determined by an actuarial valuation as of July 1, 2017. The District's proportionate share of the net MPP Program OPEB liability of $790,513 was measured as of June 30, 2017, and was determined by an actuarial valuation as of June 30, 2016.

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

	District Plan	MPP Program
Valuation Date	July 1, 2017	June 30, 2016
Experience Study	N/A	July 1, 2010, through June 30, 2015
Inflation	3.13 percent	N/A
Salary increases	3.0 percent	N/A
Healthcare cost trend rates	6.0 percent for 2017; 5.0 percent for 2018; 5.0 percent for 2019 and 5.0 percent for 2020 and later years	3.58 percent
Retirees' share of benefit-related costs	Certificated - equal to the single-party medical premium and dental PPO premium. Classified - equal to the single-party medical and dental premiums and the two-party vision premium. Management - equal to the single-party medical, dental and vision premium.	3.7 percent for Medicare Part A, and 4.1 percent for Medicare Part B

District Plan
The discount rate is based on the S&P Municipal Bond 20 Year High Grade Rate Index.

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

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (continued)

B. Total OPEB Liability (continued)

MPP Program
The discount rate used to measure the total OPEB liability was 3.58 percent. The MPP Program is funded on a pay-as-you-go basis, 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, which is the Bond Buyer 20-Bond GO Index from Bondbuyer.com as of June 30, 2017, was applied to all periods of projected benefit payments to measure the total OPEB liability.

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 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.

C. Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at July 1, 2017	$ 31,795,951
Changes for the year:	
Service cost	2,366,690
Interest	973,022
Changes of assumptions	(1,189,399)
Benefit payments	(1,428,991)
Net changes	721,322
Balance at June 30, 2018	32,517,273
District's Proportionate Share of the Net MPP OPEB Liability	790,513
District's Total Reported Net OPEB Liability	$ 33,307,786

Changes of assumptions and other inputs reflect a change in the discount rate from 3.13 percent in 2017 to 3.62 percent in 2018 corresponding with changes in the municipal bond 20-year high grade rate index.

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (continued)

C. Changes in the Total OPEB Liability (continued)

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 percentage-point lower or one percentage-point higher than the current discount rate:

	1% Decrease 2.62%	Discount Rate 3.62%	1% Increase 4.62%
District Plan	$ 34,992,193	$ 32,517,273	$ 30,229,690

	1% Decrease 2.58%	Discount Rate 3.58%	1% Increase 4.58%
MPP Program	$ 875,153	$ 790,513	$ 708,183

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 percentage-point lower or one percentage-point higher than the current healthcare cost trend rates:

	1% Decrease 5.00% decreasing to 4.00%	Healthcare Cost Trend Rates 6.00% decreasing to 5.00%	1% Increase 7.00% decreasing to 6.00%
District Plan	$ 29,165,399	$ 32,517,273	$ 36,432,714

	1% Decrease (2.7% Part A and 3.1% Part B)	Medicare Cost Trend Rates (3.7% Part A and 4.1% Part B)	1% Increase (4.7% Part A and 5.1% Part B)
MPP Program	$ 714,350	$ 790,513	$ 865,916

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (continued)

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

For the year ended June 30, 2018, the District recognized OPEB expense of $3,196,411. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following source:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	$ -	$ (1,046,098)
Total	$ -	$ (1,046,098)

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

Year Ended June 30:	Deferred Inflows of Resources
2019	$ (143,301)
2020	(143,301)
2021	(143,301)
2022	(143,301)
2023	(143,301)
Thereafter	(329,593)

Required Supplementary Information

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FULLERTON SCHOOL DISTRICT

Budgetary Comparison Schedule – General Fund

For the Fiscal Year Ended June 30, 2018

	Budgeted Amounts			Variance with
	Original	Final	Actual * (Budgetary Basis)	Final Budget - Pos (Neg)
Revenues				
Local Control Funding Formula Sources	$ 108,713,850	$ 108,826,552	$ 108,826,552	$ -
Federal Sources	5,679,582	7,177,632	6,494,434	(683,198)
Other State Sources	5,566,970	13,482,049	13,671,884	189,835
Other Local Sources	8,028,618	10,197,119	10,871,925	674,806
Total Revenues	127,989,020	139,683,352	139,864,795	181,443
Expenditures				
Current:				
Certificated Salaries	62,914,042	63,559,177	63,559,176	1
Classified Salaries	21,473,153	21,958,696	21,958,696	-
Employee Benefits	30,601,723	36,108,071	35,700,209	407,862
Books and Supplies	6,647,236	13,715,751	10,067,147	3,648,604
Services and Other Operating Expenditures	7,896,189	10,143,804	9,459,694	684,110
Transfers of Indirect Cost	(467,155)	(450,557)	(459,091)	8,534
Capital Outlay	390,868	1,555,287	1,215,532	339,755
Intergovernmental	1,350,000	1,295,748	1,248,873	46,875
Debt Service	545,266	545,266	535,286	9,980
Total Expenditures	131,351,322	148,431,243	143,285,522	5,145,721
Excess (Deficiency) of Revenues Over (Under) Expenditures	(3,362,302)	(8,747,891)	(3,420,727)	5,327,164
Fund Balance, July 1, 2017	30,653,972	38,639,380	38,639,380	-
Fund Balance, June 30, 2018	$ 27,291,670	$ 29,891,489	$ 35,218,653	5,327,164

* The actual amounts reported in this schedule are for the General Fund only, and do not agree with the amounts reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances because the amounts on that schedule include the financial activity of the Deferred Maintenance Fund in accordance with the fund type definitions promulgated by GASB Statement No. 54.

FULLERTON SCHOOL DISTRICT

Schedule of Proportionate Share of the Net Pension Liability
For the Fiscal Year Ended June 30, 2018

Last Ten Fiscal Years*

	2017	2016	2015	2014
CalSTRS				
District's proportion of the net pension liability	0.1181%	0.1200%	0.1170%	0.1290%
District's proportionate share of the net pension liability	$ 109,180,387	$ 97,057,200	$ 78,769,080	$ 75,383,730
State's proportionate share of the net pension liability associated with the District	25,497,837	55,261,067	41,660,048	45,520,408
Totals	$ 134,678,224	$ 152,318,267	$ 120,429,128	$ 120,904,138
District's covered-employee payroll	$ 62,716,781	$ 60,377,307	$ 57,461,667	$ 53,572,921
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	174.08%	160.75%	137.08%	140.71%
Plan fiduciary net position as a percentage of the total pension liability	69%	70%	74%	77%
CalPERS				
District's proportion of the net pension liability	0.1687%	0.1673%	0.1644%	0.1587%
District's proportionate share of the net pension liability	$ 40,268,954	$ 33,041,853	$ 24,232,722	$ 18,016,314
District's covered-employee payroll	$ 21,336,110	$ 19,938,997	$ 18,132,291	$ 17,467,785
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	188.74%	165.71%	133.64%	103.14%
Plan fiduciary net position as a percentage of the total pension liability	72%	74%	79%	83%

Notes to Schedule:

Changes in Benefit Terms
A summary of the plan provisions that were used for a specific plan can be found in each plan's annual valuation report.

Change of Assumptions and Methods
CalSTRS:
The assumptions used in determining the Total Pension Liability of the STRP changed as a result of the actuarial experience study for the period starting July 1, 2010 and ending June 30, 2015. The assumption changes were to price inflation, wage growth, discount rate and the mortality tables.

CalPERS:
In Fiscal Year 2016-17, the financial reporting discount rate for the PERF B was lowered from 7.65 percent to 7.15 percent. In December 2016, the CalPERS Board approved lowering the funding discount rate used in the PERF B from 7.50 percent to 7.00 percent, which is to be phased-in over a three-year period (7.50 percent to 7.375 percent, 7.375 percent to 7.25 percent, and 7.25 percent to 7.00 percent) beginning with the June 30, 2017, valuation reports. The funding discount rate includes a 15 basis-point reduction for administrative expenses, and the remaining decrease is consistent with the change in the financial reporting discount rate.

In Fiscal Year 2014-15, the financial reporting discount rate was increased from 7.50 percent to 7.65 percent resulting from eliminating the 15 basis-point reduction for administrative expenses. The funding discount rate remained at 7.50 percent during this period, and remained adjusted for administrative expenses.

* *This schedule is required to show information for ten years; however, until a full ten year trend is compiled, information is presented for those years for which information is available.*

FULLERTON SCHOOL DISTRICT
Schedule of Pension Contributions
For the Fiscal Year Ended June 30, 2018

Last Ten Fiscal Years*

	2018	2017	2016	2015
CalSTRS				
Contractually required contribution	$ 9,382,636	$ 7,889,771	$ 6,478,548	$ 5,102,596
Contributions in relation to the contractually required contribution	9,382,636	7,889,771	6,478,548	5,102,596
Contribution deficiency (excess):	$ -	$ -	$ -	$ -
District's covered-employee payroll	$ 65,021,734	$ 62,716,781	$ 60,377,307	$ 57,461,667
Contributions as a percentage of covered-employee payroll	14.43%	12.58%	10.73%	8.88%
CalPERS				
Contractually required contribution	$ 3,330,869	$ 2,963,158	$ 2,362,173	$ 2,134,352
Contributions in relation to the contractually required contribution	3,330,869	2,963,158	2,362,173	2,134,352
Contribution deficiency (excess):	$ -	$ -	$ -	$ -
District's covered-employee payroll	$ 21,446,584	$ 21,336,103	$ 19,938,997	$ 18,132,291
Contributions as a percentage of covered-employee payroll	15.531%	13.888%	11.847%	11.771%

* *This schedule is required to show information for ten years; however, until a full ten year trend is compiled, information is presented for those years for which information is available.*

Last 10 Fiscal Years*

	2017
Total OPEB liability	
Service cost	$ 2,366,690
Interest	973,022
Changes of assumptions or other inputs	(1,189,399)
Benefit payments	(1,428,991)
Net change in total OPEB liability	721,322
Total OPEB liability - beginning	31,795,951
Total OPEB liability - ending	$ 32,517,273
Covered-employee payroll	$ 90,469,777
Total OPEB liability as a percentage of covered-employee payroll	35.94%

Notes to Schedule:

Changes of assumptions: The discount rate used changed from 3.13% in 2017 to 3.62% in 2018 from changes in the Municipal Bond 20-Year High Grade Rate Index.

** This schedule is required to show information for ten years; however, until a full ten year trend is compiled, information is presented for those years for which information is available.*

FULLERTON SCHOOL DISTRICT
Schedule of Changes in the District's Total OPEB Liability and Related Ratios – MPP Program
For the Fiscal Year Ended June 30, 2018

(Dollars in Thousands, except for District's proportionate share)

		2017
Total OPEB liability		
Interest	$	12,928
Differences between expected and actual experience		(41)
Changes of assumptions		(31,240)
Benefit payments, including refunds of member contributions		(28,929)
Net change in total OPEB liability		(47,282)
Total OPEB liability - beginning		468,031
Total OPEB liability - ending	$	420,749
Plan fiduciary net position		
Contributions - employer	$	29,117
Net investment income		11
Premiums paid		(28,929)
Administrative expense		(168)
Net change in plan fiduciary net position		31
Plan fiduciary net position - beginning		10
Plan fiduciary net position - ending	$	41
Net OPEB liability	$	420,708
District's proportionate share of net OPEB liability	$	790,513
Plan fiduciary net position as a percentage of the total OPEB liability		0.01%
Covered-employee payroll		N/A
District's net OPEB liability as a percentage of covered-employee payroll		N/A

Notes to Schedule:
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.

This schedule is required to show information for ten years; however, until a full ten year trend is compiled, information is presented for those years for which information is available.

NOTE 1 – PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

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

Schedule of Proportionate Share of the Net Pension Liability

This schedule is required by GASB Statement No. 68 and is required for all employers in a cost-sharing pension plan. The schedule reports the following information:

- The proportion (percentage) of the collective net pension liability (similar to the note disclosure)
- The proportionate share (amount) of the collective net pension liability
- The employer's covered-employee payroll
- The proportionate share (amount) of the collective net pension liability as a percentage of the employer's covered-employee payroll
- The pension plan's fiduciary net position as a percentage of the total pension liability

Schedule of Pension Contributions

This schedule is required by GASB Statement No. 68 and is required for all employers in a cost-sharing pension plan. The schedule reports the following information:

- If an employer's contributions to the plan are actuarially determined or based on statutory or contractual requirements: the employer's actuarially determined contribution to the pension plan (or, if applicable, its statutorily or contractually required contribution), the employer's actual contributions, the difference between the actual and actuarially determined contributions (or statutorily or contractually required), and a ratio of the actual contributions divided by covered-employee payroll.

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

This schedule is required by GASB Statement No. 75 for all sole and agent employers that provide other postemployment benefits (OPEB). The schedule presents information of the measurement date of the net OPEB liability.

NOTE 2 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

At June 30, 2018, the District did not incur any excess of expenditures over appropriations in the individual major fund presented in the Budgetary Comparison Schedule.

Supplementary Information

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The Fullerton School District was established in 1888. The District boundaries encompass approximately 26 square miles in Orange County. There were no changes in the boundaries of the District during the current year. The District is currently operating 15 elementary schools (K-6), two combined K-8 schools, and three junior high schools.

BOARD OF TRUSTEES

Member	Office	Term Expires
Beverly Berryman	President	November 30, 2018
Janny Meyer	Vice-President	November 30, 2018
Chris Thompson	Clerk	November 30, 2018
Hilda Sugarman	Member	November 30, 2020
Jeanette Vazquez	Member	November 30, 2020

DISTRICT ADMINISTRATORS

Robert Pletka, Ed.D.,
Superintendent

Chad Hammitt, Ed.D.,
Assistant Superintendent, Personnel Services

Emy Flores, Ed.D.,
Assistant Superintendent, Educational Services

Robert R. Coghlan, Ph.D.,
Assistant Superintendent, Business Services

Jay McPhail,
Assistant Superintendent, Innovation and Instructional Support

FULLERTON SCHOOL DISTRICT
Schedule of Average Daily Attendance
For the Fiscal Year Ended June 30, 2018

	Second Period Report Certificate No. (C2140E18)	Annual Report Certificate No. (5315ADFC)
Regular & Extended Year ADA:		
Transitional Kindergarten through Third	5,485.49	5,487.68
Fourth through Sixth	4,444.67	4,440.84
Seventh through Eighth	2,987.10	2,980.45
Total Regular & Extended Year ADA	12,917.26	12,908.97
Special Education - Nonpublic, Nonsectarian Schools:		
Transitional Kindergarten through Third	2.04	2.54
Fourth through Sixth	3.29	3.29
Seventh through Eighth	1.68	1.80
Total Special Education - Nonpublic, Nonsectarian Schools	7.01	7.63
Total ADA	12,924.27	12,916.60

FULLERTON SCHOOL DISTRICT
Schedule of Instructional Time
For the Fiscal Year Ended June 30, 2018

Grade Level	Required Minutes	2017-18 Actual Minutes	Number of Days Traditional Calendar	Status
Kindergarten	36,000	37,330	180	Complied
Grade 1	50,400	52,544	180	Complied
Grade 2	50,400	52,740	180	Complied
Grade 3	50,400	53,336	180	Complied
Grade 4	54,000	54,926	180	Complied
Grade 5	54,000	54,926	180	Complied
Grade 6	54,000	54,926	180	Complied
Grade 7	54,000	62,519	180	Complied
Grade 8	54,000	62,519	180	Complied

General Fund	(Budget) 2019 [2]	2018 [3]	2017	2016
Revenues and other financing sources	$ 139,525,877	$ 139,864,795	$ 138,530,885	$ 138,542,603
Expenditures	142,425,923	143,285,522	137,604,756	128,436,548
Other uses and transfers out	-	-	-	4,120,512
Total outgo	142,425,923	143,285,522	137,604,756	132,557,060
Change in fund balance (deficit)	(2,900,046)	(3,420,727)	926,129	5,985,543
Ending fund balance	$ 32,318,607	$ 35,218,653	$ 38,639,380	$ 37,713,251
Available reserves [1]	$ 24,898,427	$ 26,050,813	$ 24,915,876	$ 25,973,759
Available reserves as a percentage of total outgo	17.5%	18.2%	18.1%	19.6%
Total long-term debt	$ 221,475,001	$ 225,607,725	$ 206,707,485	$ 158,025,789
Average daily attendance at P-2	12,726	12,924	13,038	13,184

The General Fund balance has decreased by $2.5 million over the past two years. The fiscal year 2018-19 adopted budget projects a decrease of $2.9 million. For a district of this size, the state recommends available reserves of at least 3% of total general fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in two of the past three years, but anticipates an operating deficit for the 2018-19 fiscal year. The total long-term debt has increased by approximately $67.6 million over the past two years because of increases to the net pension liability and OPEB under GASB Statement No.75.

Average daily attendance has decreased by 260 over the past two years. The District anticipates a decrease in ADA of 198 for the 2018-19 fiscal year.

[1] Available reserves consist of all unassigned fund balances in the General Fund.

[2] Budget as of September, 2018.

[3] The actual amounts reported in this schedule are for the General Fund only, and do not agree with the amounts reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances because the amounts on that schedule include the financial activity of the Deferred Maintenance Fund in accordance with the fund type definitions promulgated by GASB Statement No. 54.

There were no differences between the Annual Financial and Budget Report and the Audited Financial Statements in any funds.

FULLERTON SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2018

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Cluster Expenditures	Federal Expenditures
Federal Programs:				
U.S. Department of Agriculture:				
Passed through California Dept. of Education (CDE):				
Child Nutrition Cluster:				
School Breakfast Program - Especially Needy	10.553	13526	$ 421,849	
School Breakfast Program - Basic	10.553	13390	373	
National School Lunch Program	10.555	13523	2,895,183	
Summer Food Service Program	10.559	13004	19,109	
USDA Donated Foods	10.555	N/A	373,701	
Total Child Nutrition Cluster				$ 3,710,215
Child and Adult Care Food Program	10.558	13394	391,987	
Cash in Lieu of Commodities	10.558	13389	28,216	
Total Child and Adult Care Food Program				420,203
Total U.S. Department of Agriculture				4,130,418
U.S. Department of Education:				
Passed through California Dept. of Education (CDE):				
Every Student Succeeds Act (ESSA):				
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329		2,699,186
Title II, Part A, Supporting Effective Instruction	84.367	14341		443,387
English Language Acquisition Grants Cluster:				
Title III, Limited English Proficiency	84.365	14346	443,425	
Title III, Immigrant Education Program	84.365	14334	27,488	
Subtotal English Language Acquisition Grants Cluster				470,913
Individuals with Disabilities Education Act (IDEA):				
Special Education Cluster:				
Passed through North Orange County SELPA:				
Local Assistance Entitlement	84.027	13379	2,217,710	
Preschool Grants, Part B, Sec 619	84.173	13430	71,225	
Preschool Local Entitlement, Part B, Sec 611	84.027A	13682	254,300	
Total Special Education Cluster				2,543,235
Total U.S. Department of Education				6,156,721
U.S. Department of Health & Human Services:				
Passed through California Dept. of Education:				
Medi-Cal Billing Option	93.778	10013		403,151
Total U.S. Department of Health & Human Services				403,151
Total Expenditures of Federal Awards				$ 10,690,290

Of the Federal expenditures presented in the schedule, the District provided no Federal awards to subrecipients.

NOTE 1 – PURPOSE OF SCHEDULES

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

The District has participated in the Incentives for Longer Instructional Day and Longer Instructional Year. The District has not met 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.

Schedule of Financial Trends and Analysis

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

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

Schedule of Expenditures of Federal Awards

The 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 the Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements. The District did not elect to use the ten percent de minimis indirect cost rate.

The following schedule provides a 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 represent Federal funds that have been recorded as revenues that have not been expended by June 30, 2018.

	CFDA Number	Amount
Total Federal Revenues from the Statement of Revenues, Expenditures, and Changes in Fund Balances		$ 10,867,423
Differences between Federal Revenues and Expenditures:		
Child and Adult Care Food Program	10.558	(226,283)
CACFP: Cash in Lieu of Commodities	10.558	(16,288)
Medi-Cal Billing Option	93.778	65,438
Total Schedule of Expenditures of Federal Awards		$ 10,690,290

Other Independent Auditors' Reports

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NIGRO & NIGRO PC
A Professional Accountancy Corporation

INDEPENDENT AUDITORS' 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*

Board of Trustees
Fullerton School District
Fullerton, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fullerton School District as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Fullerton School District's basic financial statements, and have issued our report thereon dated November 29, 2018.

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

Jeff Nigro, CPA, CFE | Elizabeth Nigro, CPA | Kevin Brejnak, CPA, CFE | Peter Glenn, CPA | Michael Klein, CPA, CMA, EA

MURRIETA OFFICE 25220 Hancock Avenue, Suite 400, Murrieta, CA 92562 • P: (951) 698-8783 • F: (951) 699-1064
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Compliance and Other Matters
As part of obtaining reasonable assurance about whether Fullerton School District's financial statements are free of 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.

Nigro + Nigro, PC.

Murrieta, California
November 29, 2018

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Board of Trustees
Fullerton School District
Fullerton, California

Report on State Compliance
We have audited Fullerton School District's compliance with the types of compliance requirements described in the *2017-18 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 Fullerton School District's state government programs as noted on the following page for the fiscal year ended June 30, 2018.

Management's Responsibility
Management is responsible for compliance with state laws, regulations, and the terms and conditions of its State programs.

Auditors' Responsibility
Our responsibility is to express an opinion on compliance for each of Fullerton School District's state programs based on our audit of the types of compliance requirements referred to on the following page. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to on the following page that could have a direct and material effect on a state program occurred. An audit includes examining, on a test basis, evidence about Fullerton 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 state program. However, our audit does not provide a legal determination of Fullerton School District's compliance.

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

Description	Procedures Performed
Local Education Agencies Other Than Charter Schools:	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	Not Applicable
Continuation Education	Not Applicable
Instructional Time	Yes
Instructional Materials	Yes
Ratio of Administrative Employees to Teachers	Yes

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Description	Procedures Performed
Classroom Teacher Salaries	Yes
Early Retirement Incentive	Not Applicable
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	Not Applicable
Middle or Early College High Schools	Not Applicable
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
Apprenticeship: Related and Supplemental Instruction	Not Applicable
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	Yes
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study - Course Based	Not Applicable
Charter Schools:	
Attendance	Not Applicable
Mode of Instruction	Not Applicable
Nonclassroom-Based Instruction/Independent Study	Not Applicable
Determination of Funding for Nonclassroom-Based Instruction	Not Applicable
Annual Instructional Minutes – Classroom Based	Not Applicable
Charter School Facility Grant Program	Not Applicable

Unmodified Opinion on Compliance with State Programs

In our opinion, Fullerton School District complied, in all material respects, with the types of compliance requirements referred to above for the year ended June 30, 2018.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance with the compliance requirements referred to previously, which are required to be reported in accordance with the *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting,* and which are described in the accompanying schedule of findings and questioned costs as Finding 2018-001. Our opinion on each state program is not modified with respect to these matters.

District's Response to Finding

Fullerton School District's response to the compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Fullerton School District's response was not subjected to the auditing procedures in the audit of compliance and, accordingly, we express no opinion on the response.

Nigro + Nigro, PC.

Murrieta, California
November 29, 2018

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

Board of Trustees
Fullerton School District
Fullerton, California

Report on Compliance for Each Major Federal Program
We have audited Fullerton School District's compliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on each of Fullerton School District's major federal programs for the year ended June 30, 2018. Fullerton School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

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

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

Opinion on Each Major Federal Program
In our opinion, Fullerton 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.

Jeff Nigro, CPA, CFE | Elizabeth Nigro, CPA | Kevin Brejnak, CPA, CFE | Peter Glenn, CPA | Michael Klein, CPA, CMA, EA

MURRIETA OFFICE 25220 Hancock Avenue, Suite 400, Murrieta, CA 92562 • P: (951) 698-8783 • F: (951) 699-1064
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Report on Internal Control Over Compliance

Management of Fullerton 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 Fullerton 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 the 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.

Nigro + Nigro, PC.

Murrieta, California
November 29, 2018

Findings and Questioned Costs

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SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(s) identified not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(s) identified not considered to be material weaknesses?	None reported
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance, Section 200.516	No
Identification of major programs:	

CFDA Numbers	Name of Federal Program or Cluster
84.010	Title I, Part A, Basic Grants Low Income and Neglected

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

State Awards

Type of auditors' report issued on compliance for state programs:	Unmodified

SECTION II - FINANCIAL STATEMENT FINDINGS

This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards.* Pursuant to Assembly Bill (AB) 3627, all audit findings must be identified as one or more of the following categories:

Five Digit Code	AB 3627 Finding Types
10000	Attendance
20000	Inventory of Equipment
30000	Internal Control
40000	State Compliance
42000	Charter School Facilities Programs
50000	Federal Compliance
60000	Miscellaneous
61000	Classroom Teacher Salaries
62000	Local Control Accountability Plan
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

There were no financial statement findings in 2017-18.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

This section identifies the audit findings required to be reported by the Uniform Guidance, Section 200.516 (e.g., significant deficiencies, material weaknesses, and instances of noncompliance, including questioned costs).

There were no federal award findings or questioned costs in 2017-18.

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

This section identifies the audit findings pertaining to noncompliance with state program rules and regulations.

Finding 2018-001: CALPADS Unduplicated Pupil Count (40000)

Criteria: Supplemental and concentration grant amounts are calculated based on the percentage of "unduplicated pupils" enrolled in the LEA on Census Day (first Wednesday in October). The percentage equals:

- Unduplicated count of pupils who (1) are English learners, (2) meet income or categorical eligibility requirements for free or reduced-price meals under the National School Lunch Program, or (3) are foster youth. "Unduplicated count" means that each pupil is counted only once even if the pupil meets more than one of these criteria (*EC* sections 2574(b)(2) and 42238.02(b)(1)).

- Divided by total enrollment in the LEA (*EC* sections 2574(b)(1) and 42238.02(b)(5)). All pupil counts are based on Fall 1 certified enrollment reported in the CALPADS as of Census Day.

Condition: During submission of data to CALPADS, the District discovered it did not upload the complete listing of students that qualify as FRPM from the information system for a six-week period. This resulted in underreporting the UPC by 611 students.

Context: The District underreported 611 students in the unduplicated pupil count. We selected a sample of 60 of these students and found no exceptions. This sample and testing was in addition to the UPC audit of the previously reported amounts for which no errors or exceptions were identified.

Cause: The District failed to upload data from the information system for FRPM for a six-week period.

Questioned Cost: None, but the effect of the error is to increase the District's funding by $129,311. This amount was calculated by utilizing the audit penalty calculator provided through CDE.

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS (continued)

Finding 2018-001: CALPADS Unduplicated Pupil Count (40000) (continued)

Effect: The unduplicated pupil counts in the CALPADS 1.17 and 1.18 reports should be adjusted for the following changes:

School Site	CALPADS Reported	Adjusted based on eligibility for: FRPM	Adjusted Total
Acacia Elementary	157	11	168
Beechwood Elementary	179	11	190
Commonwealth Elementary	296	39	335
D. Russell Parks Junior High	322	52	374
Fern Drive Elementary	201	19	220
Golden Hill Elementary	238	19	257
Hermosa Drive Elementary	194	19	213
Ladera Vista Elementary	388	65	453
Laguna Road Elementary	194	7	201
Maple Elementary	256	33	289
Nicolas Junior High	525	65	590
NPS School Group	3	-	3
Orangethorpe Elementary	466	48	514
Pacific Drive Elementary	408	42	450
Raymond Elementary	311	22	333
Richmond Elementary	597	41	638
Robert C. Fisler Elementary	328	7	335
Rolling Hills Elementary	209	18	227
Sunset Lane Elementary	374	34	408
Valencia Park Elementary	525	36	561
Woodcrest Elementary	325	23	348
District-wide	6,496	611	7,107

The enrollment count of 13,286 was not impacted as a result of the procedures performed.

Recommendation: We recommend that the District implement a review procedure of the CALPADS information prior to the reports submission to the California Department of Education.

View of Responsible Officials: District personnel will be monitoring the CALPADS reports, specifically as it relates to the free and reduced meal counts. District personnel will also be verifying at various points to ensure the percentage at each site and year over year are reasonable and accurate. The District has been working with an outside vendor to perform additional testing to ensure the counts are correctly reported. District staff will validate and confirm all data before submittal to the state.

There were no findings or questioned costs in 2016-17.

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To the Board of Trustees
Fullerton School District
Fullerton, California

In planning and performing our audit of the basic financial statements of Fullerton School District for the fiscal year ending June 30, 2018, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted matters that are an opportunity for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated November 29, 2018, on the financial statements of Fullerton School District.

ASSOCIATED STUDENT BODY (ASB) FUNDS

***Observation*:** We noted in our test of disbursements that one was not properly approved by a student representative. Furthermore, approval for some other disbursements from the advisor and the district representative took place after the invoice date.

***Recommendation*:** Education Code Section 48933(b) requires all expenditures from ASB funds be authorized by a student representative, an advisor, and a district representative (usually a principal or assistant principal) prior to disbursing the funds. As a best practice, we recommend that the approvals be obtained prior to incurring the expense. Furthermore, issuing payment for expenditures without supporting documentation can provide the opportunity for the misappropriation of student funds.

***Observation*:** In our test of cash receipts, we found a deposit for sales that lacked sufficient supporting documentations such as prenumbered receipts.

***Recommendation*:** Sound internal controls for handling cash discourage theft of ASB funds and protect those who handle the cash. It is important to tie all proceeds to the specific fundraiser from which they were generated and to ensure that all proceeds from an event are turned in and properly accounted for. We recommend that before any events are held, control procedures should be established that will allow for the reconciliation between money collected and sales.

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

Nigro + Nigro, PC.

Murrieta, California
November 29, 2018

Jeff Nigro, CPA, CFE | Elizabeth Nigro, CPA | Kevin Brejnak, CPA, CFE | Peter Glenn, CPA | Michael Klein, CPA, CMA, EA

MURRIETA OFFICE 25220 Hancock Avenue, Suite 400, Murrieta, CA 92562 • P: (951) 698-8783 • F: (951) 699-1064
OAKLAND OFFICE 333 Hegenberger Road, Suite 388, Oakland, CA 94621 • P: (844) 557-3111 • F: (844) 557-3444

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