

**SAN MARCOS UNIFIED SCHOOL
DISTRICT**

**AUDIT REPORT
JUNE 30, 2018**

San Diego

Los Angeles

**San Francisco
Bay Area**

christywhite
A PROFESSIONAL
ACCOUNTANCY CORPORATION *associates*

SAN MARCOS UNIFIED SCHOOL DISTRICT
TABLE OF CONTENTS
JUNE 30, 2018

FINANCIAL SECTION

Independent Auditors’ Report 1
Management’s Discussion and Analysis..... 4
Basic Financial Statements
 Government-wide Financial Statements
 Statement of Net Position 11
 Statement of Activities 12
 Fund Financial Statements
 Governmental Funds – Balance Sheet 13
 Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position 14
 Governmental Funds – Statement of Revenues, Expenditures, and Changes in Fund Balances..... 16
 Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund
 Balances to the Statement of Activities 17
 Proprietary Funds – Statement of Net Position 19
 Proprietary Funds – Statement of Revenues, Expenses, and Changes in Net Position..... 20
 Proprietary Funds – Statement of Cash Flows..... 21
 Fiduciary Funds – Statement of Net Position..... 22
Notes to Financial Statements 23

REQUIRED SUPPLEMENTARY INFORMATION

General Fund – Budgetary Comparison Schedule 67
Schedule of Changes in Total OPEB Liability and Related Ratios..... 68
Schedule of the District’s Proportionate Share of the Net Pension Liability - CalSTRS 69
Schedule of the District’s Proportionate Share of the Net Pension Liability - CalPERS..... 70
Schedule of District Contributions - CalSTRS 71
Schedule of District Contributions - CalPERS..... 72
Notes to Required Supplementary Information..... 73

SUPPLEMENTARY INFORMATION

Schedule of Expenditures of Federal Awards 75
Schedule of Average Daily Attendance (ADA)..... 76
Schedule of Instructional Time 77
Schedule of Financial Trends and Analysis 78
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements 79
Schedule of Charter Schools..... 80
Combining Statements – Non-Major Governmental Funds
 Combining Balance Sheet 81
 Combining Statement of Revenues, Expenditures, and Changes in Fund Balances..... 82
Local Education Agency Organization Structure 83
Notes to Supplementary Information..... 84

SAN MARCOS UNIFIED SCHOOL DISTRICT
TABLE OF CONTENTS
JUNE 30, 2018

OTHER INDEPENDENT AUDITORS' REPORTS

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* 86

Report on Compliance For Each Major Federal Program; and Report on Internal Control Over Compliance Required by the Uniform Guidance..... 88

Report on State Compliance..... 90

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Summary of Auditors' Results 93

Financial Statement Findings..... 94

Federal Award Findings and Questioned Costs 95

State Award Findings and Questioned Costs..... 96

Summary Schedule of Prior Audit Findings 98

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Governing Board
San Marcos Unified School District
San Marcos, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the San Marcos Unified School District, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the San Marcos Unified School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

Christy White, CPA

Michael D. Ash, CPA

John Whitehouse, CPA

Heather Daud Rubio

SAN DIEGO

LOS ANGELES

SAN FRANCISCO/BAY AREA

Corporate Office:

348 Olive Street
San Diego, CA 92103

toll-free: 877.220.7229

tel: 619.270.8222

fax: 619.260.9085

www.christywhite.com

Licensed by the California

State Board of Accountancy

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, business-type activities, each major fund, and the aggregate remaining fund information of San Marcos Unified School District, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Notes 1 and 10 to the financial statements, in 2018 San Marcos Unified School District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Supplementary Information

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

Supplementary Information (continued)

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

Other Reporting Required by *Government Auditing Standards*

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

Christy White Associates

San Diego, California
November 29, 2018

**SAN MARCOS UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

INTRODUCTION

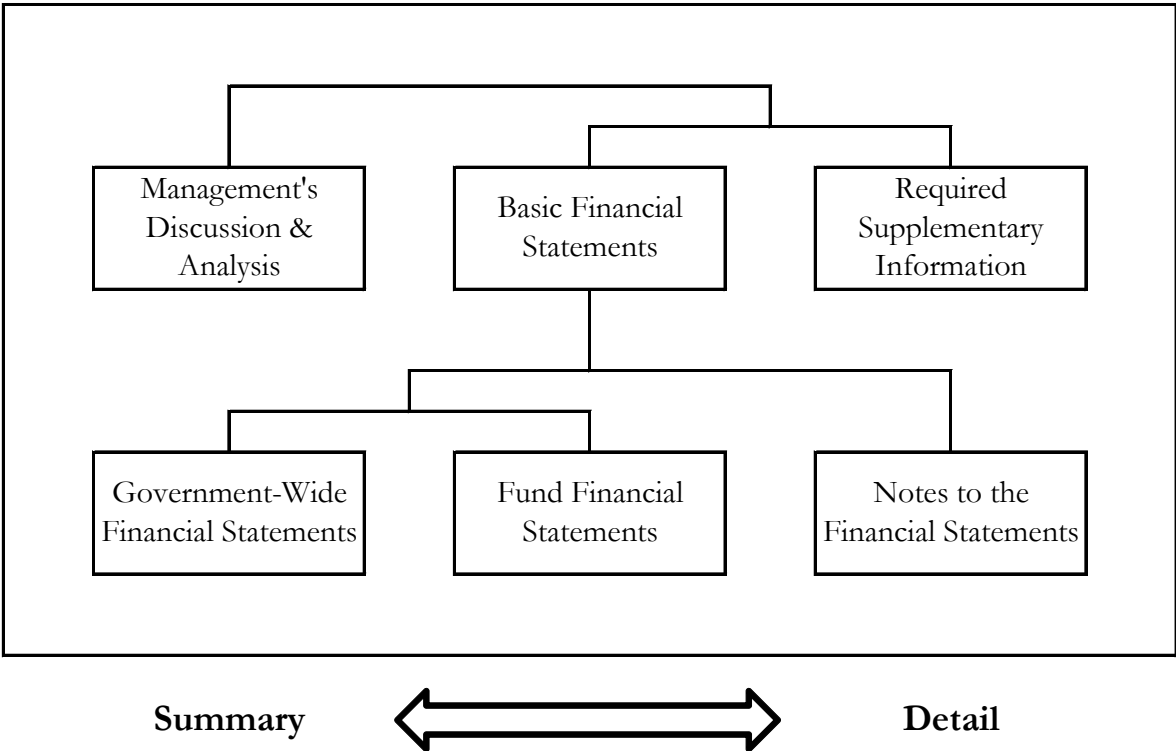
Our discussion and analysis of San Marcos Unified School District's (District) financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2018. It should be read in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District's total combined net position was \$18,846,144 at June 30, 2018. This was an increase of \$21,729,952 from the prior year after restatement.
- Overall combined revenues were \$291,965,251 which exceeded combined expenses of \$270,235,299.

OVERVIEW OF FINANCIAL STATEMENTS

Components of the Financials Section



**SAN MARCOS UNIFIED SCHOOL DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2018**

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

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

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

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

Government-Wide Statements

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

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

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

**SAN MARCOS UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2018**

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE

Net Position

The District's combined net position was \$18,846,144 at June 30, 2018, as reflected in the table below. Of this amount, \$(354,794,632) was unrestricted. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the Governing Board's ability to use that net position for day-to-day operations.

	Governmental Activities			Business-Type Activities		
	2018	2017	Net Change	2018	2017	Net Change
ASSETS						
Current and other assets	\$ 189,667,041	\$ 171,775,860	\$ 17,891,181	\$ 739,220	\$ 681,614	\$ 57,606
Capital assets	599,094,411	550,870,551	48,223,860	-	-	-
Total Assets	788,761,452	722,646,411	66,115,041	739,220	681,614	57,606
DEFERRED OUTFLOWS OF RESOURCES	92,732,886	35,861,643	56,871,243	348,389	134,066	214,323
LIABILITIES						
Current liabilities	33,307,685	26,308,501	6,999,184	122,384	114,019	8,365
Long-term liabilities	813,353,573	655,064,318	158,289,255	346,141	40,604	305,537
Total Liabilities	846,661,258	681,372,819	165,288,439	468,525	154,623	313,902
DEFERRED INFLOWS OF RESOURCES	16,589,027	5,273,664	11,315,363	16,993	-	16,993
NET POSITION						
Net investment in capital assets	268,379,905	82,219,619	186,160,286	-	-	-
Restricted	105,260,871	8,054,576	97,206,295	-	-	-
Unrestricted	(355,396,723)	(18,412,624)	(336,984,099)	602,091	661,057	(58,966)
Total Net Position	\$ 18,244,053	\$ 71,861,571	\$ (53,617,518)	\$ 602,091	\$ 661,057	\$ (58,966)

**SAN MARCOS UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2018**

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE (continued)

Changes in Net Position

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

	Governmental Activities			Business-Type Activities		
	2018	2017	Net Change	2018	2017	Net Change
REVENUES						
Program revenues						
Charges for services	\$ 2,852,980	\$ 2,780,262	\$ 72,718	\$ 3,197,909	\$ -	\$ 3,197,909
Operating grants and contributions	34,908,987	34,999,829	(90,842)	-	-	-
Capital grants and contributions	37,025,346	-	37,025,346	-	-	-
General revenues						
Property taxes	86,835,957	82,457,722	4,378,235	-	-	-
Unrestricted federal and state aid	122,554,515	122,846,354	(291,839)	-	-	-
Other	4,579,126	7,058,140	(2,479,014)	10,431	3,232,521	(3,222,090)
Total Revenues	288,756,911	250,142,307	38,614,604	3,208,340	3,232,521	(24,181)
EXPENSES						
Instruction	158,261,057	171,475,520	(13,214,463)	-	-	-
Instruction-related services	20,431,141	23,579,855	(3,148,714)	-	-	-
Pupil services	25,039,463	26,126,961	(1,087,498)	-	-	-
General administration	10,627,342	11,871,715	(1,244,373)	-	-	-
Plant services	23,547,984	20,644,339	2,903,645	-	-	-
Ancillary and community services	4,256,816	4,372,480	(115,664)	-	-	-
Debt service	22,215,137	22,273,931	(58,794)	-	-	-
Other outgo	2,774,129	2,471,617	302,512	-	-	-
Enterprise activities	74,320	132,873	(58,553)	3,007,910	2,771,464	236,446
Total Expenses	267,227,389	282,949,291	(15,721,902)	3,007,910	2,771,464	236,446
Transfers & special items	300,000	-	300,000	(300,000)	200,000	(500,000)
Change in net position	21,829,522	(32,806,984)	54,636,506	(99,570)	661,057	(760,627)
Net Position - Beginning, as Restated*	(3,585,469)	104,668,555	(108,254,024)	701,661	-	701,661
Net Position - Ending	\$ 18,244,053	\$ 71,861,571	\$ (53,617,518)	\$ 602,091	\$ 661,057	\$ (58,966)

* Beginning Net Position for Governmental Activities and Business-Type Activities was restated for the 2018 year only

The cost of all our governmental activities this year was \$267,227,389 (refer to the table above). The amount that our taxpayers ultimately financed for these activities through taxes was only \$86,835,957 because the cost was paid by other governments and organizations who subsidized certain programs with grants and contributions.

**SAN MARCOS UNIFIED SCHOOL DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2018**

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE (continued)

Changes in Net Position (continued)

In the table below, we have presented the net cost of each of the District’s functions related to Governmental Activities. Net cost shows the financial burden that was placed on the District’s taxpayers by each of these functions. Providing this information allows our citizens to consider the cost of each function in comparison to the benefits they believe are provided by that function.

	Net Cost of Services	
	2018	2017
Instruction	\$ 96,554,898	\$ 148,485,498
Instruction-related services	19,716,838	21,269,618
Pupil services	16,608,596	17,842,742
General administration	10,097,417	11,297,026
Plant services	22,395,140	19,138,600
Ancillary and community services	2,863,602	3,122,426
Debt service	22,215,137	22,273,931
Transfers to other agencies	1,932,192	1,645,806
Enterprise activities	56,256	93,553
Total Expenses	\$ 192,440,076	\$ 245,169,200

FINANCIAL ANALYSIS OF THE DISTRICT’S MAJOR FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed this year, its governmental funds reported a combined fund balance of \$177,919,237, which is more than last year’s ending fund balance of \$161,009,042 which is primarily due to the issuance of Election 2014, Series D General Obligation bonds and Lease Revenue Bonds, Series 2017. The District’s General Fund had \$4,560,623 less in operating revenues than expenditures for the year ended June 30, 2018. The District’s Building Fund had \$39,573,117 less in operating revenues than expenditures for the year ended June 30, 2018 related to ongoing construction under Proposition K. The District’s Capital Facilities Fund’s balance increased \$48,941,258 due to the issuance of Lease Revenue Bonds, Series 2017 during the year ended June 30, 2018. The District’s County School Facilities Fund had \$37,025,346 more in operating revenues than expenditures for the year ended June 30, 2018 as it received State School Facilities Program funding in which \$33,346,957 was then transferred to the Capital Facilities Fund.

CURRENT YEAR BUDGET 2017-2018

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

**SAN MARCOS UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2018**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2017-2018 the District had invested \$599,094,411 in capital assets, net of accumulated depreciation. There were no capital assets related to Business-Type Activities for the year ended June 30, 2018.

	Governmental Activities		
	2018	2017	Net Change
CAPITAL ASSETS			
Land	\$ 64,444,412	\$ 64,444,412	\$ -
Construction in progress	162,162,307	104,799,359	57,362,948
Land improvements	32,181,064	30,081,783	2,099,281
Buildings & improvements	439,684,570	438,187,692	1,496,878
Furniture & equipment	40,921,325	40,458,242	463,083
Accumulated depreciation	(140,299,267)	(127,100,937)	(13,198,330)
Total Capital Assets	\$ 599,094,411	\$ 550,870,551	\$ 48,223,860

Long-Term Debt

At year-end, the District had \$813,353,573 in long-term debt related to governmental activities, an increase of 24.16%. In addition, the District had long-term liabilities in the amount of \$346,141 relating to business-type activities, an increase of 752.48%. (More detailed information about the District's long-term liabilities is presented in footnotes to the financial statements.)

	Governmental Activities			Business-Type Activities		
	2018	2017	Net Change	2018	2017	Net Change
LONG-TERM LIABILITIES						
Total general obligation bonds	\$ 343,037,743	\$ 322,312,402	\$ 20,725,341	\$ -	\$ -	\$ -
Total lease revenue bonds	85,447,471	51,103,950	34,343,521	-	-	-
CFD and RDA bonds	81,761,070	84,841,491	(3,080,421)	-	-	-
Capital leases	2,533,539	2,803,502	(269,963)	-	-	-
Early retirement incentive	2,215,898	486,799	1,729,099	-	-	-
Compensated absences	1,301,260	1,277,474	23,786	45,943	39,608	6,335
Site lease	6,309,457	7,102,788	(793,331)	-	-	-
Total OPEB liability*	92,469,648	17,384,339	75,085,309	-	-	-
Net pension liability	211,476,471	178,082,601	33,393,870	300,198	40,604	259,594
Less: current portion of long-term debt	(13,198,984)	(10,331,028)	(2,867,956)	-	(39,608)	39,608
Total Long-term Liabilities	\$ 813,353,573	\$ 655,064,318	\$ 158,289,255	\$ 346,141	\$ 40,604	\$ 305,537

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

**SAN MARCOS UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2018**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

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

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

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

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

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

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

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, please contact the Business Office at (760) 752-1212.

SAN MARCOS UNIFIED SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2018

	Governmental	Business-Type	Total
	Activities	Activities	
ASSETS			
Cash and investments	\$ 181,231,509	\$ 829,419	\$ 182,060,928
Accounts receivable	7,975,121	33,801	8,008,922
Internal balances	124,000	(124,000)	-
Inventory	336,411	-	336,411
Capital assets, not depreciated	226,606,719	-	226,606,719
Capital assets, net of accumulated depreciation	372,487,692	-	372,487,692
Total Assets	788,761,452	739,220	789,500,672
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	72,470,013	348,389	72,818,402
Deferred amount on refunding	20,262,873	-	20,262,873
Total Deferred Outflows of Resources	92,732,886	348,389	93,081,275
LIABILITIES			
Accrued liabilities	19,141,003	77,735	19,218,738
Unearned revenue	967,698	44,649	1,012,347
Long-term liabilities, current portion	13,198,984	-	13,198,984
Long-term liabilities, non-current portion	813,353,573	346,141	813,699,714
Total Liabilities	846,661,258	468,525	847,129,783
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	15,844,970	16,993	15,861,963
Deferred inflows related to OPEB	744,057	-	744,057
Total Deferred Inflows of Resources	16,589,027	16,993	16,606,020
NET POSITION			
Net investment in capital assets	268,379,905	-	268,379,905
Restricted:			
Capital projects	89,057,764	-	89,057,764
Debt service	9,172,061	-	9,172,061
Educational programs	5,296,286	-	5,296,286
All others	1,696,898	-	1,696,898
Permanent endowment	37,862	-	37,862
Unrestricted	(355,396,723)	602,091	(354,794,632)
Total Net Position	\$ 18,244,053	\$ 602,091	\$ 18,846,144

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

**SAN MARCOS UNIFIED SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018**

Function/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	
GOVERNMENTAL ACTIVITIES							
Instruction	\$ 158,261,057	\$ 186,415	\$ 24,494,398	\$ 37,025,346	\$ (96,554,898)		
Instruction-related services							
Instructional supervision and administration	5,408,119	-	172,249	-	(5,235,870)		
Instructional library, media, and technology	1,674,727	443	4,867	-	(1,669,417)		
School site administration	13,348,295	859	535,885	-	(12,811,551)		
Pupil services							
Home-to-school transportation	4,946,272	-	26,103	-	(4,920,169)		
Food services	7,928,590	1,868,723	5,526,439	-	(533,428)		
All other pupil services	12,164,601	125	1,009,477	-	(11,154,999)		
General administration							
Centralized data processing	1,807,209	-	30,654	-	(1,776,555)		
All other general administration	8,820,133	79,914	419,357	-	(8,320,862)		
Plant services	23,547,984	7,769	1,145,075	-	(22,395,140)		
Ancillary services	2,208,942	-	56,466	-	(2,152,476)		
Community services	2,047,874	707,538	629,210	-	(711,126)		
Enterprise activities	74,320	1,194	16,870	-	(56,256)		
Interest on long-term debt	22,215,137	-	-	-	(22,215,137)		
Other outgo	2,774,129	-	841,937	-	(1,932,192)		
Total Governmental Activities	\$ 267,227,389	\$ 2,852,980	\$ 34,908,987	\$ 37,025,346	(192,440,076)		
BUSINESS-TYPE ACTIVITIES							
Enterprise activities	\$ 3,007,910	\$ 3,197,909	\$ -	\$ -		\$ 189,999	
Total Business-Type Activities	3,007,910	3,197,909	-	-		189,999	
Total School District	\$ 270,235,299	\$ 6,050,889	\$ 34,908,987	\$ 37,025,346			\$ (192,250,077)
General revenues							
Taxes and subventions							
Property taxes, levied for general purposes					56,538,614	-	56,538,614
Property taxes, levied for debt service					13,879,712	-	13,879,712
Property taxes, levied for other specific purposes					16,417,631	-	16,417,631
Federal and state aid not restricted for specific purposes					122,554,515	-	122,554,515
Interest and investment earnings					2,470,560	-	2,470,560
Interagency revenues					107,020	-	107,020
Miscellaneous					2,001,546	10,431	2,011,977
Subtotal, General Revenue					213,969,598	10,431	213,980,029
Change in net position before transfers & special items							
					21,529,522	200,430	21,729,952
Internal transfers					300,000	(300,000)	-
Total Transfers & Special Items					300,000	(300,000)	-
CHANGE IN NET POSITION							
					21,829,522	(99,570)	21,729,952
Net Position - Beginning, as Restated							
					(3,585,469)	701,661	(2,883,808)
Net Position - Ending							
					\$ 18,244,053	\$ 602,091	\$ 18,846,144

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

**SAN MARCOS UNIFIED SCHOOL DISTRICT
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2018**

	General Fund	Building Fund	Capital Facilities Fund	County School Facilities Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS						
Cash and investments	\$ 30,041,398	\$ 40,559,625	\$ 78,908,063	\$ 3,661,818	\$ 27,961,361	\$ 181,132,265
Accounts receivable	6,510,059	206,133	225,673	16,643	1,016,207	7,974,715
Due from other funds	617,003	-	-	-	3,306	620,309
Stores inventory	142,652	-	-	-	193,759	336,411
Total Assets	\$ 37,311,112	\$ 40,765,758	\$ 79,133,736	\$ 3,678,461	\$ 29,174,633	\$ 190,063,700
LIABILITIES						
Accrued liabilities	\$ 5,629,172	\$ 2,365,477	\$ 2,468,088	\$ -	\$ 207,719	\$ 10,670,456
Due to other funds	13,306	-	-	-	493,003	506,309
Unearned revenue	855,986	-	-	-	111,712	967,698
Total Liabilities	6,498,464	2,365,477	2,468,088	-	812,434	12,144,463
FUND BALANCES						
Nonspendable	482,652	-	-	-	203,759	686,411
Restricted	5,281,433	38,400,281	76,665,648	3,678,461	28,103,238	152,129,061
Committed	12,989,162	-	-	-	55,202	13,044,364
Unassigned	12,059,401	-	-	-	-	12,059,401
Total Fund Balances	30,812,648	38,400,281	76,665,648	3,678,461	28,362,199	177,919,237
Total Liabilities and Fund Balances	\$ 37,311,112	\$ 40,765,758	\$ 79,133,736	\$ 3,678,461	\$ 29,174,633	\$ 190,063,700

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

**SAN MARCOS UNIFIED SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
JUNE 30, 2018**

Total Fund Balance - Governmental Funds \$ 177,919,237

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

Capital assets:

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

Capital assets	\$ 739,372,497	
Accumulated depreciation	<u>(140,299,267)</u>	599,073,230

Deferred amount on refunding:

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

20,262,873

Unmatured interest on long-term debt:

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

(8,467,907)

Long-term liabilities:

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

Total general obligation bonds	\$ 343,037,743	
Total lease revenue bonds	85,447,471	
CFD and RDA bonds	81,761,070	
Capital leases	2,533,539	
Early retirement incentive	2,215,898	
Compensated absences	1,301,260	
Site lease	6,309,457	
Total OPEB liability	92,469,648	
Net pension liability	<u>211,476,471</u>	(826,552,557)

Deferred outflows and inflows of resources relating to pensions:

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

Deferred outflows of resources related to pensions	\$ 72,470,013	
Deferred inflows of resources related to pensions	<u>(15,844,970)</u>	56,625,043

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

SAN MARCOS UNIFIED SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT
OF NET POSITION, continued
JUNE 30, 2018

Deferred outflows and inflows of resources relating to OPEB:

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

Deferred outflows of resources related to OPEB	\$ -	
Deferred inflows of resources related to OPEB	(744,057)	(744,057)
	<u> </u>	

Internal service funds:

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

128,191

Total Net Position - Governmental Activities

\$ 18,244,053

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

	General Fund	Building Fund	Capital Facilities Fund	County School Facilities Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES						
LCFF sources	\$ 171,448,611	\$ -	\$ -	\$ -	\$ -	\$ 171,448,611
Federal sources	9,087,453	-	-	-	5,393,346	14,480,799
Other state sources	20,038,461	-	-	36,962,808	526,691	57,527,960
Other local sources	13,768,737	1,015,465	13,238,767	62,538	22,326,773	50,412,280
Total Revenues	214,343,262	1,015,465	13,238,767	37,025,346	28,246,810	293,869,650
EXPENDITURES						
Current						
Instruction	146,419,366	-	-	-	94,433	146,513,799
Instruction-related services						
Instructional supervision and administration	5,335,415	-	-	-	-	5,335,415
Instructional library, media, and technology	1,578,326	-	-	-	-	1,578,326
School site administration	13,088,083	-	-	-	16,878	13,104,961
Pupil services						
Home-to-school transportation	4,502,065	-	-	-	-	4,502,065
Food services	-	-	-	-	7,641,178	7,641,178
All other pupil services	12,133,566	-	-	-	-	12,133,566
General administration						
Centralized data processing	1,617,459	-	-	-	-	1,617,459
All other general administration	6,568,557	-	1,128,990	-	273,937	7,971,484
Plant services	19,852,951	10,753	1,359,514	-	1,188,568	22,411,786
Facilities acquisition and maintenance	1,305,383	40,560,643	19,104,657	-	-	60,970,683
Ancillary services	2,227,769	-	-	-	400	2,228,169
Community services	2,008,033	-	-	-	2,000	2,010,033
Enterprise activities	56,268	-	-	-	4,655	60,923
Transfers to other agencies	2,143,502	-	-	-	-	2,143,502
Debt service						
Principal	57,893	-	3,325,401	-	3,720,977	7,104,271
Interest and other	9,249	17,186	4,969,901	-	10,976,516	15,972,852
Total Expenditures	218,903,885	40,588,582	29,888,463	-	23,919,542	313,300,472
Excess (Deficiency) of Revenues	(4,560,623)	(39,573,117)	(16,649,696)	37,025,346	4,327,268	(19,430,822)
Over Expenditures	(4,560,623)	(39,573,117)	(16,649,696)	37,025,346	4,327,268	(19,430,822)
Other Financing Sources (Uses)						
Transfers in	300,000	-	35,782,712	-	-	36,082,712
Other sources	-	5,255,000	81,412,509	-	126,849,511	213,517,020
Transfers out	(10,000)	-	-	(33,346,957)	(2,435,755)	(35,792,712)
Other uses	-	-	(51,604,267)	-	(125,861,736)	(177,466,003)
Net Financing Sources (Uses)	290,000	5,255,000	65,590,954	(33,346,957)	(1,447,980)	36,341,017
NET CHANGE IN FUND BALANCE	(4,270,623)	(34,318,117)	48,941,258	3,678,389	2,879,288	16,910,195
Fund Balance - Beginning	35,083,271	72,718,398	27,724,390	72	25,482,911	161,009,042
Fund Balance - Ending	\$ 30,812,648	\$ 38,400,281	\$ 76,665,648	\$ 3,678,461	\$ 28,362,199	\$ 177,919,237

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

**SAN MARCOS UNIFIED SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018**

Net Change in Fund Balances - Governmental Funds \$ 16,910,195

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

Capital outlay:

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

Expenditures for capital outlay:	\$ 61,450,712	
Depreciation expense:	<u>(13,224,028)</u>	48,226,684

Debt service:

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

164,849,271

Debt proceeds:

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

(215,408,385)

Deferred amounts on refunding:

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

18,187,569

Unmatured interest on long-term debt:

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

(3,082,080)

Accreted interest on long-term debt:

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

(3,944,809)

Compensated absences:

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

(23,786)

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

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

Postemployment benefits other than pensions (OPEB):

In governmental funds, OPEB expenses are recognized when employer OPEB contributions are made. In the statement of activities, OPEB expenses are recognized on the accrual basis. This year, the difference between OPEB expenses and actual employer OPEB contributions was: (382,326)

Pensions:

In governmental funds, pension costs are recognized when employer contributions are made, in the government-wide statement of activities, pension costs are recognized on the accrual basis. This year, the difference between accrual-basis pension costs and employer contributions was: (5,281,502)

Other liabilities not normally liquidated with current financial resources:

In the 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. Examples include special termination benefits such as retirement incentives financed over time, and structured legal settlements. This year, expenses incurred for such obligations were: 162,266

Amortization of debt issuance premium or discount:

In governmental funds, if debt is issued at a premium or at a discount, the premium or discount is recognized as an Other Financing Source or an Other Financing Use in the period it is incurred. In the government-wide statements, the premium or discount is amortized over the life of the debt. Amortization of premium or discount for the period is: 1,687,411

Internal Service Funds:

Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because internal service funds are presumed to benefit governmental activities, internal service activities are reported as governmental in the statement of activities. The net increase or decrease in internal service funds was: (70,986)

Change in Net Position of Governmental Activities

\$ 21,829,522

**SAN MARCOS UNIFIED SCHOOL DISTRICT
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION
 JUNE 30, 2018**

	Business-Type Activities	Governmental Activities
	Enterprise Fund	Internal Service Fund
	Child Care Program	Self-Insurance
ASSETS		
Current assets		
Cash and investments	\$ 829,419	\$ 99,244
Accounts receivable	33,801	406
Due from other funds	-	10,000
Total current assets	<u>863,220</u>	<u>109,650</u>
Non-current assets		
Capital assets, net of accumulated depreciation	-	21,181
Total non-current assets	<u>-</u>	<u>21,181</u>
Total Assets	<u>863,220</u>	<u>130,831</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to pensions	348,389	-
Total Deferred Outflows of Resources	<u>348,389</u>	<u>-</u>
LIABILITIES		
Current liabilities		
Accrued liabilities	77,735	2,640
Due to other funds	124,000	-
Unearned revenue	44,649	-
Total current liabilities	<u>246,384</u>	<u>2,640</u>
Non-current liabilities		
Net pension liability	300,198	-
Compensated absences	45,943	-
Total non-current liabilities	<u>346,141</u>	<u>-</u>
Total Liabilities	<u>592,525</u>	<u>2,640</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to pensions	16,993	-
Total Deferred Inflows of Resources	<u>16,993</u>	<u>-</u>
NET POSITION		
Restricted	-	128,191
Unrestricted	602,091	-
Total Net Position	<u>\$ 602,091</u>	<u>\$ 128,191</u>

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

**SAN MARCOS UNIFIED SCHOOL DISTRICT
 PROPRIETARY FUNDS
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
 FOR THE YEAR ENDED JUNE 30, 2018**

	Business-Type Activities	Governmental Activities
	Enterprise Fund	Internal Service Fund
	Child Care Program	Self-Insurance
OPERATING REVENUE		
Other local revenues	\$ 3,197,909	\$ 62,970
Total operating revenues	3,197,909	62,970
OPERATING EXPENSE		
Salaries and benefits	2,647,988	97,287
Supplies and materials	157,072	8,207
Professional services	202,850	37,603
Depreciation	-	2,824
Total operating expenses	3,007,910	145,921
Operating income/(loss)	189,999	(82,951)
NON-OPERATING REVENUES/(EXPENSES)		
Interest income	10,431	1,965
Transfers in	-	10,000
Transfers out	(300,000)	-
Total non-operating revenues/(expenses)	(289,569)	11,965
CHANGE IN NET POSITION		
	(99,570)	(70,986)
Net Position - Beginning, As Restated	701,661	199,177
Net Position - Ending	\$ 602,091	\$ 128,191

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

**SAN MARCOS UNIFIED SCHOOL DISTRICT
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Business-Type Activities</u>	<u>Governmental Activities</u>
	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>
	<u>Child Care Program</u>	<u>Self-Insurance</u>
Cash flows from operating activities		
Cash received from user charges	\$ 2,965,944	\$ 63,126
Cash paid from assessments made from other funds	(42,227)	(10,000)
Cash payments for payroll, insurance, and operating costs	(2,636,411)	(155,264)
Net cash provided by (used for) operating activities	<u>287,306</u>	<u>(102,138)</u>
Cash flows from non-capital financing activities		
Interfund transfers in (out)	(300,000)	10,000
Net cash provided by (used for) non-capital financing activities	<u>(300,000)</u>	<u>10,000</u>
Cash flows from investing activities		
Interest received	10,431	1,965
Net cash provided by investing activities	<u>10,431</u>	<u>1,965</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	<u>(2,263)</u>	<u>(90,173)</u>
CASH AND CASH EQUIVALENTS		
Beginning of year	831,682	189,417
End of year	<u>\$ 829,419</u>	<u>\$ 99,244</u>
Reconciliation of operating income (loss) to cash provided by (used for) operating activities		
Operating income (loss)	\$ 189,999	\$ (82,951)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation	-	2,824
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(17,642)	156
Increase in deferred outflows of resources	(214,323)	-
Increase in due from other funds	-	(10,000)
Increase (decrease) in accounts payable	3,324	(12,167)
Decrease in due to other funds	(42,227)	-
Increase in unearned revenue	44,649	-
Increase in net pension liability	300,198	-
Increase in compensated absences	6,335	-
Increase in deferred inflows of resources	16,993	-
Net cash provided by (used for) operating activities	<u>\$ 287,306</u>	<u>\$ (102,138)</u>

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

**SAN MARCOS UNIFIED SCHOOL DISTRICT
 FIDUCIARY FUNDS
 STATEMENT OF NET POSITION
 JUNE 30, 2018**

	<u>Agency Funds</u>
	<u>Student Body</u>
	<u>Fund</u>
ASSETS	
Cash and investments	\$ 1,227,637
Total Assets	<u>\$ 1,227,637</u>
LIABILITIES	
Due to student groups	\$ 1,227,637
Total Liabilities	<u>\$ 1,227,637</u>

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

SAN MARCOS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

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

The District operates under a locally elected Board form of government and provides educational services to grades K-12 as mandated by the state. A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student-related activities.

B. Component Units

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District, in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete. 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. 14, as amended by GASBS No. 39, Determining Whether Certain Organizations Are Component Units, GASBS No. 61, The Financial Reporting Entity: Omnibus and GASBS No. 80, Blending Requirements for Certain Component Units. The Financial Reporting Entity, and thus are included in the financial statements of the District. The component units, although legally separate entities, are reported in the financial statements using the blended presentation method as if they were part of the District's operations because the governing board of the component units is essentially the same as the governing board of the District and because their purpose is to finance the construction of facilities to be used for the direct benefit of the District.

Based on these criteria, the District has two blended component units, the San Marcos Community Facilities Districts and the San Marcos School Financing Authority.

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

C. **Basis of Presentation**

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

The statement of activities presents a comparison between direct expenses and program revenue for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reserved for the statement of activities. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting of operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the District.

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

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

Proprietary funds are used to account for activities that are more business-like than government-like in nature. Business-type activities include those for which a fee is charged to external users or to other organizational units of the District, normally on a full cost-recovery basis. Proprietary funds are generally intended to be self-supporting.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

Major Governmental Funds

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

Building Fund: This fund exists primarily to account separately for proceeds from the sale of bonds (*Education Code Section 15146*) and may not be used for any purposes other than those for which the bonds were issued. Other authorized revenues to the Building Fund are proceeds from the sale or lease-with-option-to-purchase of real property (*Education Code Section 17462*) and revenue from rentals and leases of real property specifically authorized for deposit into the fund by the governing board (*Education Code Section 41003*).

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

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

Non-Major Governmental Funds

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

Adult Education Fund: This fund is used to account separately for federal, state, and local revenues for adult education programs. Money in this fund shall be expended for adult education purposes only. Moneys received for programs other than adult education shall not be expended for adult education (*Education Code Sections 52616[b]* and *52501.5[a]*).

Cafeteria Special Revenue Fund: This fund is used to account separately for federal, state, and local resources to operate the food service program (*Education Code Sections 38090–38093*). The Cafeteria Special Revenue Fund shall be used only for those expenditures authorized by the governing board as necessary for the operation of the District's food service program (*Education Code Sections 38091 and 38100*).

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

Non-Major Governmental Funds (continued)

Special Revenue Funds (continued)

Foundation Special Revenue Fund: This fund is used to account for resources received from gifts or bequests pursuant to *Education Code Section 41031* under which both earnings and principal may be used for purposes that support the District's own programs and where there is a formal trust agreement with the donor.

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

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

Capital Projects Fund for Blended Component Units: This fund is used to account for capital projects financed by Mello-Roos Community Facilities Districts and similar entities that are considered blended component units of the District under generally accepted accounting principles (GAAP).

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

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

Permanent Funds: Permanent funds were introduced as part of the governmental financial reporting model established by GASB Statement 34 to account for permanent foundations that benefit a District.

Foundation Permanent Fund: This fund is used to account for resources received from gifts or bequests pursuant to *Education Code Section 41031* that are restricted to the extent that earnings, but not principal, may be used for purposes that support the District's own programs and where there is a formal trust agreement with the donor.

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

C. Basis of Presentation (*continued*)

Proprietary Funds

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

Child Care Enterprise Fund: This fund is used to account for revenues and expenditures of the District's after school childcare program.

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

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

Fiduciary Funds

Trust and Agency Funds: Trust and agency funds are used to account for assets held in a trustee or agent capacity for others that cannot be used to support the District's own programs. The key distinction between trust and agency funds is that trust funds are subject to a trust agreement that affects the degree of management involvement and the length of time that the resources are held.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Government-Wide, Proprietary, and Fiduciary Financial Statements

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

Net Position equals assets and deferred outflows of resources minus liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. The net position should be reported as restricted when constraints placed on its use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net position restricted for other activities results from special revenue funds and the restrictions on their use.

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

Governmental Funds

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

Revenues – Exchange and Non-Exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Available" means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. Generally, "available" means collectible within the current period or within 60 days after year-end. However, to achieve comparability of reporting among California school districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to State-aid apportionments, the California Department of Education has defined available for school districts as collectible within one year.

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

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

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, grants, and entitlements. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from the grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Eligibility requirements include timing requirements, which specify the year when the resources are to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Unearned Revenue

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

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

Expenses/Expenditures

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Cash and Cash Equivalents

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

Investments

Investments with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county and State investment pools are determined by the program sponsor.

Inventories

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

Capital Assets

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

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their acquisition value as of the date received. The District maintains a capitalization threshold of \$5,000. The District does not own any infrastructure as defined in GASB Statement No. 34. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset’s life are not capitalized. All reported capital assets, except for land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings and Improvements	20-50 years
Building Improvements	20-25 years
Vehicles	5-15 years
Office Equipment	5-15 years
Computer Equipment	5-15 years

Interfund Balances

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Compensated Absences

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

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

Accrued Liabilities and Long-Term Obligations

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

Postemployment Benefits Other Than Pensions (OPEB)

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

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

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

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

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

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

Premiums and Discounts

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

Deferred Outflows/Deferred Inflows of Resources

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

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

Pensions

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

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

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

Fund Balance

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

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

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

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

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Interfund Activity

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

G. Estimates

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

H. Budgetary Data

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

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

I. Property Tax

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

SAN MARCOS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. New Accounting Pronouncements

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

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

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

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

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

SAN MARCOS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 2 – CASH AND INVESTMENTS

A. Summary of Cash and Investments

	Governmental Funds	Internal Service Funds	Governmental Activities	Business-Type Activities	Fiduciary Funds
Investment in county treasury	\$ 148,168,355	\$ 99,244	\$ 148,267,599	\$ 829,419	\$ -
Cash on hand and in banks	200	-	200	-	1,227,637
Cash with fiscal agent	32,613,618	-	32,613,618	-	-
Cash in revolving fund	350,000	-	350,000	-	-
Other investments	92	-	92	-	-
Total cash and investments	\$ 181,132,265	\$ 99,244	\$ 181,231,509	\$ 829,419	\$ 1,227,637

B. Policies and Practices

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

Investment in County Treasury – The District maintains substantially all of its cash in the County Treasury in accordance with *Education Code Section 41001*. The San Diego County Treasurer’s pooled investments are managed by the County Treasurer who reports on a monthly basis to the board of supervisors. In addition, the function of the County Treasury Oversight Committee is to review and monitor the County’s investment policy. The committee membership includes the Treasurer and Tax Collector, the Auditor-Controller, Chief Administrative Officer, Superintendent of Schools Representative, and a public member. The fair value of the District’s investment in the pool is based upon the District’s pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

Cash with Fiscal Agent – The District maintains cash balances with Union Bank related to its Community Facilities District Bonds and Lease Revenue Bonds.

SAN MARCOS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 2 – CASH AND INVESTMENTS (continued)

C. General Authorizations

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

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

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Treasury. The District maintains a pooled investment with the County Treasury with a fair value of \$148,132,897 and an amortized book value of \$149,097,018. The average weighted maturity for this pool is 345 days.

SAN MARCOS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 2 – CASH AND INVESTMENTS (continued)

E. Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The investments in the County Treasury are not required to be rated. As of June 30, 2018, the pooled investments in the County Treasury were rated at above SP-1/"A" by S&P or MIG1/"A" by Moody's or F-1/"A" by Fitch.

F. Custodial Credit Risk – Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2018, the District's bank balances of \$989,714 was exposed to custodial credit risk.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the District's name.

G. Investment Accounting Policy

The District is required by GASB Statement No. 31 to disclose its policy for determining which investments, if any, are reported at amortized cost. The District's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

The District's investments in external investment pools are reported at an amount determined by the fair value per share of the pool's underlying portfolio, unless the pool is 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

SAN MARCOS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 2 – CASH AND INVESTMENTS (continued)

H. Fair Value

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

Level 1 - Quoted prices (unadjusted) in active markets for identical assets.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, or other inputs that are observable, either directly or indirectly.

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

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

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

	Uncategorized
Investment in county treasury	\$ 148,132,897
Total fair market value of investments	\$ 148,132,897

NOTE 3 – ACCOUNTS RECEIVABLE

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

	General Fund	Building Fund	Capital Facilities Fund	County School Facilities Fund	Non-Major Governmental Funds	Internal Service Funds	Total Governmental Activities	Total Business-Type Activities
Federal Government								
Categorical aid	\$ 2,240,080	\$ -	\$ -	\$ -	\$ 870,514	\$ -	\$ 3,110,594	\$ -
State Government								
Apportionment	-	-	-	-	61,086	-	61,086	-
Categorical aid	585,275	-	-	-	101	-	585,376	-
Lottery	858,157	-	-	-	-	-	858,157	-
Local Government								
Other local sources	2,826,547	206,133	225,673	16,643	84,506	406	3,359,908	33,801
Total	\$ 6,510,059	\$ 206,133	\$ 225,673	\$ 16,643	\$ 1,016,207	\$ 406	\$ 7,975,121	\$ 33,801

SAN MARCOS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 4 – CAPITAL ASSETS

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

	Balance July 01, 2017	Additions	Deletions	Balance June 30, 2018
Governmental Activities				
Capital assets not being depreciated				
Land	\$ 64,444,412	\$ -	\$ -	\$ 64,444,412
Construction in progress	104,799,359	58,684,180	1,321,232	162,162,307
Total Capital Assets not Being Depreciated	169,243,771	58,684,180	1,321,232	226,606,719
Capital assets being depreciated				
Land improvements	30,081,783	2,099,281	-	32,181,064
Buildings & improvements	438,187,692	1,496,878	-	439,684,570
Furniture & equipment	40,458,242	491,605	28,522	40,921,325
Total Capital Assets Being Depreciated	508,727,717	4,087,764	28,522	512,786,959
Less Accumulated Depreciation				
Land improvements	16,346,501	1,297,408	-	17,643,909
Buildings & improvements	79,653,386	9,474,894	-	89,128,280
Furniture & equipment	31,101,050	2,454,550	28,522	33,527,078
Total Accumulated Depreciation	127,100,937	13,226,852	28,522	140,299,267
Governmental Activities				
Capital Assets, net	\$ 550,870,551	\$ 49,545,092	\$ 1,321,232	\$ 599,094,411

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

Governmental Activities	
Instruction	\$ 11,731,946
Instructional supervision and administration	625
Instructional library, media, and technology	2,874
School site administration	65,033
Home-to-school transportation	162,457
Food services	77,997
All other pupil services	3,099
Centralized data processing	98,870
All other general administration	573,913
Plant services	501,154
Ancillary services	6,715
Community services	2,169
Total depreciation expense	<u>\$ 13,226,852</u>

SAN MARCOS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 5 – INTERFUND TRANSACTIONS

A. Interfund Receivables/Payables (Due From/Due To)

Individual interfund receivable and payable balances at June 30, 2018 were as follows:

<u>Due To Other Funds</u>	<u>Due From Other Funds</u>			
	<u>General Fund</u>	<u>Non-Major</u>		<u>Total</u>
		<u>Governmental Funds</u>	<u>Self-Insurance Fund</u>	
General Fund	\$ -	\$ 3,306	\$ 10,000	\$ 13,306
Non-Major Governmental Funds	493,003	-	-	493,003
Child Care Enterprise Fund	124,000	-	-	124,000
Total Due From Other Funds	\$ 617,003	\$ 3,306	\$ 10,000	\$ 630,309

Due from the Cafeteria Fund to the General Fund for custodial, indirect, and OPEB costs.	\$ 490,103
Due from the Child Care Enterprise Fund to the General Fund for Kids on Campus direct service charges.	124,000
Due from the General Fund to the Self Insurance Fund for safety-related expenditures and deductibles.	10,000
Due from the General Fund to the Cafeteria Fund for catering costs and negative student accounts.	3,306
Due from the Adult Education Fund to the General Fund for indirect costs.	2,675
Due from the Foundation Special Revenue Fund to the General Fund for reimbursement of field trip costs.	225
Total	\$ 630,309

B. Operating Transfers

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

<u>Interfund Transfers Out</u>	<u>Interfund Transfers In</u>			
	<u>General Fund</u>	<u>Capital Facilities Fund</u>	<u>Self-Insurance Fund</u>	<u>Total</u>
General Fund	\$ -	\$ -	\$ 10,000	\$ 10,000
County School Facilities Fund	-	33,346,957	-	33,346,957
Non-Major Governmental Funds	-	2,435,755	-	2,435,755
Child Care Enterprise Fund	300,000	-	-	300,000
Total Interfund Transfers	\$ 300,000	\$ 35,782,712	\$ 10,000	\$ 36,092,712

Transfer from the County School Facilities Fund to the Capital Facilities Fund for State School Facilities construction projects.	\$ 33,346,957
Transfer from the Capital Projects Fund for Blended Component Units to the Capital Facilities Fund for 2010 Lease Revenue Bond debt service payment.	2,435,755
Transfer from the Child Care Enterprise Fund to the General Fund to transfer surplus from child care program operations for facilities and maintenance.	300,000
Transfer from the General Fund to the Self Insurance Fund for safety-related expenditures and deductibles.	10,000
Total	\$ 36,092,712

SAN MARCOS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 6 – ACCRUED LIABILITIES

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

	General Fund	Building Fund	Capital Facilities Fund	Non-Major Governmental Funds	Internal Service Funds	District-Wide	Total Governmental Activities	Total Business-Type Activities
Payroll	\$ 2,534,618	\$ -	\$ 8,327	\$ 82,388	\$ 1,257	\$ -	\$ 2,626,590	\$ 68,089
Construction	-	2,365,477	2,459,761	-	-	-	4,825,238	-
Vendors payable	2,317,584	-	-	125,331	-	-	2,442,915	9,646
Unmatured interest	-	-	-	-	-	8,467,907	8,467,907	-
Due to grantor government	776,970	-	-	-	-	-	776,970	-
Other liabilities	-	-	-	-	1,383	-	1,383	-
Total	\$ 5,629,172	\$ 2,365,477	\$ 2,468,088	\$ 207,719	\$ 2,640	\$ 8,467,907	\$ 19,141,003	\$ 77,735

NOTE 7 – UNEARNED REVENUE

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

	General Fund	Non-Major Governmental Funds	Total Governmental Activities	Total Business-Type Activities
Federal sources	\$ 36,952	\$ -	\$ 36,952	\$ -
State categorical sources	802,753	-	802,753	-
Local sources	16,281	111,712	127,993	44,649
Total	\$ 855,986	\$ 111,712	\$ 967,698	\$ 44,649

SAN MARCOS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 8 – LONG-TERM DEBT

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

	Restated Balance July 01, 2017	Additions/ Adjustments	Deductions	Balance June 30, 2018	Balance Due In One Year
Governmental Activities					
General obligation bonds	\$ 278,280,610	\$ 115,170,000	\$ 113,530,977	\$ 279,919,633	\$ 4,417,426
Unamortized premium	6,072,688	16,934,511	1,530,182	21,477,017	990,441
Accreted interest	37,959,104	3,681,989	-	41,641,093	-
Total general obligation bonds	322,312,402	135,786,500	115,061,159	343,037,743	5,407,867
Lease revenue bonds	50,773,327	69,265,000	47,370,000	72,668,327	2,505,000
Unamortized premium	7,232	12,147,509	7,232	12,147,509	528,153
Unamortized discount	(1,044,751)	-	(45,424)	(999,327)	(45,424)
Accreted interest	1,368,142	262,820	-	1,630,962	-
Total lease revenue bonds	51,103,950	81,675,329	47,331,808	85,447,471	2,987,729
CFD & RDA bonds	81,185,000	-	2,885,000	78,300,000	2,945,000
Unamortized premium	3,656,491	-	195,421	3,461,070	225,288
Total CFD & RDA bonds	84,841,491	-	3,080,421	81,761,070	3,170,288
Site leases	7,102,788	-	793,331	6,309,457	816,999
Capital leases	2,803,502	-	269,963	2,533,539	275,561
Early retirement incentive	486,799	1,891,365	162,266	2,215,898	540,540
Compensated absences	1,277,474	23,786	-	1,301,260	-
Total OPEB liability	92,831,379	-	361,731	92,469,648	-
Net pension liability	178,082,601	33,393,870	-	211,476,471	-
Total	\$ 740,842,386	\$ 252,770,850	\$ 167,060,679	\$ 826,552,557	\$ 13,198,984

	Restated Balance July 01, 2017	Additions/ Adjustments	Deductions	Balance June 30, 2018	Balance Due In One Year
Business-Type Activities					
Compensated absences	\$ 39,608	\$ 6,335	\$ -	\$ 45,943	\$ -
Net pension liability	-	300,198	-	300,198	-
Total	\$ 39,608	\$ 306,533	\$ -	\$ 346,141	\$ -

- Payments for general obligation bonds are made in the Bond Interest and Redemption Fund.
- Payments on lease revenue bonds and RDA bonds are made in the Capital Facilities Fund.
- Payments on CFD bonds are made in the Capital Projects Fund for Blended Component Units Fund.
- Payments for capital lease obligations are made in the General Fund and Capital Facilities Fund.
- Payments on site leases are made in the Capital Facilities Fund.
- Payments for early retirement incentive are made in the General Fund.
- Payments for compensated absences are typically liquidated in the General Fund and the Non-Major Governmental Funds.

SAN MARCOS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 8 – LONG-TERM DEBT (continued)

A. Compensated Absences

Total unpaid employee compensated absences for governmental activities, as of June 30, 2018, amounted to \$1,301,260. In addition, compensated absences related to business-type activities amounted to \$45,943 at June 30, 2018. These amounts are included as part of long-term liabilities in the government-wide financial statements.

B. Early Retirement Incentive

Debt service requirements on early retirement incentives at June 30, 2018 are as follows:

<u>Year Ended June 30,</u>	<u>Payments</u>
2019	\$ 540,540
2020	540,540
2021	378,273
2022	378,273
2023	378,272
Total	<u>\$ 2,215,898</u>

C. Capital Leases

Commitments under capitalized lease agreements for facilities and equipment provide for minimum future lease payments as of June 30, 2018, as follows:

<u>Year Ended June 30,</u>	<u>Lease Payments</u>
2019	\$ 386,891
2020	384,295
2021	352,704
2022	323,138
2023	260,475
2024 - 2028	989,060
2029 - 2033	689,376
Total minimum lease payments	<u>3,385,939</u>
Less amount representing interest	<u>(852,400)</u>
Present value of minimum lease payments	<u>\$ 2,533,539</u>

SAN MARCOS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 8 – LONG-TERM DEBT (continued)

D. Site Lease

In March 2015, the District entered into a site lease agreement with Public Property Financing Corporation to finance and provide for the construction, installation, and completion of certain public improvements as defined under the site lease. The District is financing the agreement through a lease and leaseback option with the Corporation for a total of \$5,000,000 whereas financing shall be for a period of ten years at a fixed interest rate of 2.95% per annum with annual rental payments of principal and interest of \$584,658 due each March 31, beginning March 31, 2016 and through March 31, 2025.

In October 2015, the District entered into a site lease agreement with Public Property Financing Corporation of California to finance and provide for the construction, installation, and completion of certain public improvements as defined under the site lease. The District is financing the agreement through a lease and leaseback option with the Corporation for a total of \$3,320,000 whereas financing shall be for a period of nine years at a fixed interest rate of 2.85% per annum with semi-annual interest payments due each April 27 and October 27 of each year beginning April 27, 2016 and annual principal payments due each October 27 of each year beginning October 27, 2016 and through the maturity date of October 27, 2024.

Commitments under the site lease agreements provide for minimum lease payments as follows:

<u>Year Ended June 30,</u>	<u>Lease Payments</u>
2019	\$ 995,623
2020	995,791
2021	1,000,602
2022	1,009,914
2023	1,008,799
2024 - 2025	<u>2,018,039</u>
Total minimum lease payments	7,028,768
Less amount representing interest	<u>(719,311)</u>
Present value of minimum lease payments	<u>\$ 6,309,457</u>

SAN MARCOS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 8 – LONG-TERM DEBT (continued)

E. General Obligation Bonds

General obligation bonds at June 30, 2018, consisted of the following:

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds			Bonds
					Outstanding July 01, 2017	Additions	Deductions	Outstanding June 30, 2018
1996 GO Bonds	9/6/1996	11/1/2020	3.75% - 5.35%	\$ 21,848,019	\$ 2,819,069	\$ -	\$ 726,195	\$ 2,092,874
Election 2010, Series A	6/22/2011	8/1/2038	1.38% - 6.35%	142,046,476	138,769,190	-	112,734,115	26,035,075
Election 2010, Series B	4/25/2012	8/1/2051	5.66% - 12.00%	64,995,522	64,884,552	-	70,667	64,813,885
Election 2010, Series C	4/30/2014	8/1/2040	1.83% - 5.31%	74,702,799	71,807,799	-	-	71,807,799
Election 2010, Series D	10/31/2017	8/1/2021	3.00% - 4.00%	5,255,000	-	5,255,000	-	5,255,000
2017 Refunding Bonds	10/31/2017	8/1/2038	2.00% - 5.00%	109,915,000	-	109,915,000	-	109,915,000
					\$ 278,280,610	\$ 115,170,000	\$ 113,530,977	\$ 279,919,633

Debt service requirements on general obligation bonds, net of accreted interest and unamortized premium, at June 30, 2018 are as follows:

Year Ended June 30,	Principal	Interest	Total
2019	\$ 4,417,426	\$ 10,392,624	\$ 14,810,050
2020	7,614,274	10,083,551	17,697,825
2021	4,237,890	11,090,710	15,328,600
2022	4,980,285	8,057,215	13,037,500
2023	3,716,945	9,518,680	13,235,625
2024-2028	21,929,161	57,039,840	78,969,001
2029-2033	40,967,657	62,975,092	103,942,749
2034-2038	79,483,632	52,927,668	132,411,300
2039-2043	68,650,699	29,297,876	97,948,575
2044-2048	22,445,727	126,218,794	148,664,521
2049-2052	21,475,937	164,515,177	185,991,114
Total	\$ 279,919,633	\$ 542,117,227	\$ 822,036,860

F. Lease Revenue Bonds

Lease revenue bonds at June 30, 2018, consisted of the following:

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds			Bonds
					Outstanding July 01, 2017	Additions	Deductions	Outstanding June 30, 2018
Lease Revenue Series 2010	6/3/2010	8/15/2040	2.50% - 6.81%	\$ 51,448,327	\$ 50,773,327	\$ -	\$ 46,570,000	\$ 4,203,327
Lease Revenue Series 2017	7/11/2017	8/15/2040	2.00% - 5.25%	69,265,000	-	69,265,000	800,000	68,465,000
					\$ 50,773,327	\$ 69,265,000	\$ 47,370,000	\$ 72,668,327

SAN MARCOS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 8 – LONG-TERM DEBT (continued)

F. Lease Revenue Bonds (continued)

Debt service requirements on the lease revenue bonds, net of accreted interest and unamortized premium, at June 30, 2018 are as follows:

Year Ended June 30,	Principal	Interest	Total
2019	\$ 1,020,000	\$ 3,478,356	\$ 4,498,356
2020	1,180,000	3,449,056	4,629,056
2021	1,350,000	3,410,806	4,760,806
2022	1,530,000	3,359,450	4,889,450
2023	1,715,000	3,298,250	5,013,250
2024-2028	12,185,000	14,971,500	27,156,500
2029-2033	14,664,756	16,170,993	30,835,749
2034-2038	21,823,571	11,790,679	33,614,250
2039-2041	17,200,000	1,822,275	19,022,275
Total	\$ 72,668,327	\$ 61,751,365	\$ 134,419,692

G. CFD and RDA Bonds

CFD and RDA bonds at June 30, 2018, consisted of the following:

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds			Bonds Outstanding June 30, 2018
					Outstanding July 01, 2017	Additions	Deductions	
CFD 2001 Bonds	3/21/2001	9/1/2024	3.25% - 5.00%	\$ 10,380,000	\$ 1,130,000	\$ -	\$ 135,000	\$ 995,000
CFD #5 2014 Refunding	8/7/2014	9/1/2032	2.50% - 5.00%	17,600,000	16,075,000	-	800,000	15,275,000
CFD #4 2014 Refunding	8/7/2014	9/1/2030	2.50% - 5.00%	10,455,000	9,635,000	-	435,000	9,200,000
RDA 2006 Bonds	1/26/2006	10/1/2039	3.00% - 5.00%	56,860,000	46,720,000	-	1,190,000	45,530,000
CFD #4 2016 Refunding	10/5/2016	9/1/2036	3200% - 4.00%	7,625,000	7,625,000	-	325,000	7,300,000
					\$ 81,185,000	\$ -	\$ 2,885,000	\$ 78,300,000

Debt service requirements on the CFD and RDA bonds, net of unamortized premium, at June 30, 2018 are as follows:

Year Ended June 30,	Principal	Interest	Total
2019	\$ 2,945,000	\$ 3,561,185	\$ 6,506,185
2020	3,045,000	3,485,563	6,530,563
2021	3,175,000	3,367,994	6,542,994
2022	3,325,000	3,232,522	6,557,522
2023	3,460,000	3,089,247	6,549,247
2024-2028	19,115,000	23,209,943	42,324,943
2029-2033	21,200,000	18,102,413	39,302,413
2034-2038	15,775,000	5,507,501	21,282,501
2039-2040	6,260,000	286,087	6,546,087
Total	\$ 78,300,000	\$ 63,842,455	\$ 142,142,455

SAN MARCOS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 8 – LONG-TERM DEBT (continued)

H. Other Postemployment Benefits

The District’s restated beginning total OPEB liability was \$92,831,379 and decreased by \$361,731 during the year ended June 30, 2018. The ending total OPEB liability at June 30, 2018 was \$92,469,648. See Note 10 for additional information regarding the total OPEB liability.

I. Net Pension Liability

The District’s beginning net pension liability in the governmental activities was \$178,082,601 and increased by \$33,393,870 during the year ended June 30, 2018. The ending net pension liability in governmental activities at June 30, 2018 was \$211,476,471. In addition, the ending net pension liability in business-type activities was \$300,198. See Note 11 for additional information regarding the net pension liability.

NOTE 9 – FUND BALANCES

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

	General Fund	Building Fund	Capital Facilities Fund	County School Facilities Fund	Non-Major Governmental Funds	Total Governmental Funds
Non-spendable						
Revolving cash	\$ 340,000	\$ -	\$ -	\$ -	\$ 10,000	\$ 350,000
Stores inventory	142,652	-	-	-	193,759	336,411
Total non-spendable	482,652	-	-	-	203,759	686,411
Restricted						
Permanent fund balance	-	-	-	-	37,862	37,862
Educational programs	5,281,433	-	-	-	14,853	5,296,286
Capital projects	-	38,400,281	76,665,648	3,678,461	8,713,656	127,458,046
Debt service	-	-	-	-	17,639,969	17,639,969
All others	-	-	-	-	1,696,898	1,696,898
Total restricted	5,281,433	38,400,281	76,665,648	3,678,461	28,103,238	152,129,061
Committed						
Other commitments	12,989,162	-	-	-	55,202	13,044,364
Total committed	12,989,162	-	-	-	55,202	13,044,364
Unassigned						
Reserve for economic uncertainties	6,331,000	-	-	-	-	6,331,000
Remaining unassigned	5,728,401	-	-	-	-	5,728,401
Total unassigned	12,059,401	-	-	-	-	12,059,401
Total	\$ 30,812,648	\$ 38,400,281	\$ 76,665,648	\$ 3,678,461	\$ 28,362,199	\$ 177,919,237

The District is committed to maintaining a prudent level of financial resources to protect against the need to reduce service levels because of temporary revenue shortfalls or unpredicted expenditures. The District’s Minimum Fund Balance Policy requires a Reserve for Economic Uncertainties, consisting of unassigned amounts, equal to no less than 3 percent of General Fund expenditures and other financing uses.

NOTE 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

A. Plan Description

The San Marcos Unified School District’s defined benefit OPEB plan, San Marcos Unified School District Retiree Benefit Plan (the Plan) is described below. The Plan is a single employer defined benefit plan administered by the District.

B. Benefits Provided

Active employees are offered a choice of HMO and PPO medical plans (several United Healthcare HMOs with varying network access, United Healthcare PPOs and a Kaiser HMO), two dental plans (Delta Premier and Delta DPO), and one vision plan (VSP). Eligible retirees under age 65 are eligible for the same medical plans as active employees. Eligible retirees upon reaching age 65 are eligible for the Kaiser Senior Advantage Plan or Hartford Medicare Supplement Plan including a Prescription Drug Plan and Medicare Part A and Part B premium reimbursements. Future retirees and retirees who turn age 65 on or after July 1, 2010 electing a Medicare Supplement Plan will be covered under the Hartford GRIP Supplement Plan and a Prescription Drug Plan.

Classified Employees

Classified employees hired prior to July 1, 2007, who retire at age 55 or older with at least 10 consecutive years of District benefit eligible service and who are covered under District health benefits at retirement are eligible to receive District-paid retiree medical benefits. Retiree medical benefits cease at age 65 except for employees hired prior to July 1, 1997 with at least 10 years of benefit eligible service at retirement. These employees are eligible to receive post-65 medical coverage including Medicare Part B and Part A premium reimbursements for the retiree only.

Spouses of retirees also receive District-paid medical up to the spouse's attainment of age 65, if the retiree is also receiving medical benefits. Effective June 30, 2012, for eligible employees retiring on or after July 1, 2007, spouse coverage will cease when the retiree attains age 65. Dental and vision coverage is available to the retiree and eligible dependents through COBRA continuation coverage only.

For eligible employees who retired or retire on or after July 1, 2007, the District pays 100% of the cost for medical coverage up to an annual maximum which shall not exceed the 2018 annual Kaiser premiums for each tier (\$553.00 monthly for single coverage, \$1,090.00 monthly for two-party coverage and \$1,537.00 monthly for family coverage). The applicable maximum is based on the applicable maximum for similarly situated active employees excluding dental and vision. Retirees with lifetime benefits are not subject to a maximum for post-65 coverage and receive Medicare Part A and Part B premium reimbursements.

For eligible employees who retired prior to July 1, 2007, the District’s contribution for pre-65 coverage is limited to the “standard” UHC HMO two-party rate (currently the UHC HMO Network 1-D rate).

Employees hired on or after July 1, 2007 receive no retiree health benefits.

SAN MARCOS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (continued)

B. Benefits Provided (continued)

Certificated (including Confidential & Management)

Certificated employees hired prior to July 1, 1996 who retire at age 55 or older with at least 10 consecutive years of District benefit eligible service and who are covered under District health benefits at retirement are eligible to receive District-paid retiree medical benefits for life. Certificated employees hired on or after July 1, 1996 who retire at age 55 or older with at least 10 consecutive years of District benefit eligible service are eligible to receive District-paid retiree medical benefits to the retiree's attainment of age 65.

Spouses of retirees also receive District-paid medical up to the spouse's attainment of age 65. Spousal coverage will terminate when the spouse reaches 65 years of age, regardless of the retiree's age. Dental and vision coverage is available to the retiree and eligible dependents through COBRA continuation coverage only.

For eligible employees who retired or retire on or after July 1, 2007, the District pays 100% of the cost for medical coverage up to an annual maximum which shall not exceed the 2018 annual Kaiser premiums for each tier (\$553.00 monthly for single coverage, \$1,090.00 monthly for two-party coverage and \$1,537.00 monthly for family coverage). The applicable maximum is based on the applicable maximum for similarly situated active employees excluding dental and vision. Retirees with lifetime benefits are not subject to a maximum for post-65 coverage and receive Medicare Part A and Part B premium reimbursements.

For eligible employees who retired prior to July 1, 2007, the District's contribution for pre-65 coverage is limited to the "standard" UHC HMO two-party rate (currently the UHC HMO Network 1-D rate).

Employees hired on or after July 1, 2007 receive no retiree health benefits.

Board Members

Board Members do not receive District-paid health benefits at retirement.

C. Contributions

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

SAN MARCOS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (continued)

D. Plan Membership

Membership of the Plan consisted of the following:

	<u>Number of participants</u>
Inactive employees receiving benefits	484
Inactive employees entitled to but not receiving benefits*	-
Participating active employees	<u>634</u>
Total number of participants**	<u>1,118</u>

*Information not provided

**As of the June 30, 2018 valuation date

E. Total OPEB Liability

The San Marcos Unified School District’s total OPEB liability of \$92,469,648 was measured as of June 30, 2018 and was determined by an actuarial valuation as of that date.

F. Actuarial Assumptions and Other Inputs

The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified:

Economic assumptions:

Inflation	2.75%
Salary increases	3.00%
Investment rate of return	3.50%
Healthcare cost trend rates	6.00%

SAN MARCOS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (continued)

F. Actuarial Assumptions and Other Inputs (continued)

Non-economic assumptions:

Mortality:

Certificated/Classified RPH 2014 mortality table with generational improvements using scale MP2017

Retirement rates:

Certificated/Classified

Age	Percentage Retiring*	Age	Percentage Retiring*
50 -54	3.0%	63	30.0%
55 -56	10.0%	64	32.0%
57	12.0%	65	35.0%
58	15.0%	66	40.0%
59	18.0%	67	45.0%
60	18.0%	68	62.0%
61	20.0%	69	80.0%
62	25.0%	70	100.0%

The discount rate was based on the Bond Buyer 20 Bond Index. The actuary assumed contributions would be sufficient to fully fund the obligation over a period not to exceed thirty years.

G. Changes in Total OPEB Liability

	<u>June 30, 2018</u>
Total OPEB Liability	
Service Cost	\$ 1,502,989
Interest on total OPEB liability	3,141,241
Changes of assumptions	(1,116,086)
Benefits payments	(3,889,875)
Net change in total OPEB liability	(361,731)
Total OPEB liability - beginning	92,831,379
Total OPEB liability - ending	<u>\$ 92,469,648</u>
Covered payroll	\$ 49,683,000
District's total OPEB liability as a percentage of covered payroll	186.12%

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

SAN MARCOS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (continued)

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

The following presents the total OPEB liability of the San Marcos Unified School District, as well as what the District’s total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.50 percent) or one percentage point higher (4.50 percent) than the current discount rate:

	1% Decrease	Valuation Discount Rate	1% Increase
	(2.5%)	(3.5%)	(4.5%)
Total OPEB liability	\$ 104,659,879	\$ 92,469,648	\$ 82,379,661

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

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

	1% Decrease	Valuation Trend Rate	1% Increase
	(5.0%)	(6.0%)	(7.0%)
Total OPEB liability	\$ 82,572,826	\$ 92,469,648	\$ 104,508,686

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

For the fiscal year ended June 30, 2018, the San Marcos Unified School District recognized OPEB expense of \$4,272,201. At June 30, 2018, the San Marcos Unified School District reported deferred inflows of resources related to OPEB from the following sources:

	Deferred Inflows of Resources
Changes in assumptions	\$ 744,057
	\$ 744,057

SAN MARCOS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (continued)

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

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

<u>Year Ended June 30,</u>	<u>Deferred Inflows of Resources</u>
2019	\$ 372,029
2020	372,028
	<u>\$ 744,057</u>

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

SAN MARCOS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 11 – PENSION PLANS

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

	Net pension liability	Deferred outflows related to pensions	Deferred inflows related to pensions	Pension expense
STRS Pension	\$ 164,366,199	\$ 50,628,273	\$ 15,328,161	\$ 16,389,492
PERS Pension	47,410,470	22,190,129	533,802	7,307,736
Total	\$ 211,776,669	\$ 72,818,402	\$ 15,861,963	\$ 23,697,228

A. California State Teachers' Retirement System (CalSTRS)

Plan Description

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

Benefits Provided

The CalSTRS defined benefit plan has two benefit formulas:

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

SAN MARCOS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 11 – PENSION PLANS (continued)

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

Contributions

Active plan CalSTRS 2% at 60 and 2% at 62 members are required to contribute 10.25% and 9.205% of their salary for fiscal year 2018, respectively, and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2018 was 14.43% of annual payroll. The contribution requirements of the plan members are established by state statute. Contributions to the plan from the District were \$14,236,449 for the year ended June 30, 2018.

On-Behalf Payments

The District was the recipient of on-behalf payments made by the State of California to CalSTRS for K-12 education. These payments consist of state general fund contributions of approximately \$7,907,503 to CalSTRS.

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

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

District's proportionate share of the net pension liability	\$ 164,366,199
State's proportionate share of the net pension liability associated with the District	97,238,448
Total	\$ 261,604,647

The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2016 and rolling forward the total pension liability to June 30, 2017. The District’s proportion of the net pension liability was based on a projection of the District’s long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. At June 30, 2017, the District’s proportion was 0.178 percent, which was an increase of 0.009 percent from its proportion measured as of June 30, 2016.

SAN MARCOS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 11 – PENSION PLANS (continued)

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

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

For the year ended June 30, 2018, the District recognized pension expense of \$16,389,492. In addition, the District recognized pension expense and revenue of \$2,794,764 for support provided by the State. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between projected and actual earnings on plan investments	\$ -	\$ 4,377,530
Differences between expected and actual experience	607,842	2,866,811
Changes in assumptions	30,450,758	
Changes in proportion and differences between District contributions and proportionate share of contributions	5,333,224	8,083,820
District contributions subsequent to the measurement date	14,236,449	-
	<u>\$ 50,628,273</u>	<u>\$ 15,328,161</u>

The \$14,236,449 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
2019	\$ 6,373,420	\$ 5,631,712
2020	6,373,420	(765,160)
2021	6,373,420	1,596,093
2022	6,373,422	5,884,980
2023	5,721,707	1,654,609
2024	5,176,435	1,325,927
	<u>\$ 36,391,824</u>	<u>\$ 15,328,161</u>

SAN MARCOS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 11 – PENSION PLANS (continued)

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

Actuarial Assumptions

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

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

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

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

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

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

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

*20-year geometric average

SAN MARCOS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 11 – PENSION PLANS (continued)

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

Discount Rate

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

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

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

	1% Decrease (6.10%)	Current Discount Rate (7.10%)	1% Increase (8.10%)
District's proportionate share of the net pension liability	\$ 241,341,763	\$ 164,366,199	\$ 101,895,313

Pension Plan Fiduciary Net Position

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

NOTE 11 – PENSION PLANS (continued)

B. California Public Employees’ Retirement System (CalPERS)

Plan Description

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

Benefits Provided

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

Contributions

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

The District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2018 was 15.531% of annual payroll. Contributions to the plan from the District were \$4,076,409 for the year ended June 30, 2018.

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

At June 30, 2018, the District reported a liability of \$47,410,470 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2016 and rolling forward the total pension liability to June 30, 2017. The District’s proportion of the net pension liability was based on a projection of the District’s long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. At June 30, 2017, the District’s proportion was 0.199 percent, which was an increase of 0.008 percent from its proportion measured as of June 30, 2016.

SAN MARCOS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 11 – PENSION PLANS (continued)

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

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

For the year ended June 30, 2018, the District recognized pension expense of \$7,307,736. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between projected and actual earnings on plan investments	\$ 1,640,078	\$ -
Differences between expected and actual experience	1,698,522	-
Changes in assumptions	6,925,045	558,200
Changes in proportion and differences between District contributions and proportionate share of contributions	7,850,075	(24,398)
District contributions subsequent to the measurement date	4,076,409	-
	<u>\$ 22,190,129</u>	<u>\$ 533,802</u>

The \$4,076,409 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
2019	\$ 6,013,259	\$ 575,523
2020	7,394,336	(41,721)
2021	5,604,231	-
2022	(898,106)	-
	<u>\$ 18,113,720</u>	<u>\$ 533,802</u>

SAN MARCOS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 11 – PENSION PLANS (continued)

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

Actuarial Assumptions

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

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

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

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

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

SAN MARCOS UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2018

NOTE 11 – PENSION PLANS (continued)

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

Actuarial Assumptions (continued)

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

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

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

Discount Rate

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

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

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

	1% Decrease (6.15%)	Current Discount Rate (7.15%)	1% Increase (8.15%)
District's proportionate share of the net pension liability	\$ 69,755,995	\$ 47,410,470	\$ 28,872,987

SAN MARCOS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 11 – PENSION PLANS (continued)

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

Pension Plan Fiduciary Net Position

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

NOTE 12 – COMMITMENTS AND CONTINGENCIES

A. Grants

The District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2018.

B. Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2018.

C. Construction Commitments

As of June 30, 2018, the District had commitments with respect to unfinished capital projects as follows:

<u>Project</u>	<u>Remaining Construction Commitment</u>	<u>Expected Date of Completion</u>
Alvin Dunn Reconstruction	\$ 21,474,662	August 2019
Double Peak School	4,990	Pending final site acquisition
La Costa Meadows Reconstruction	19,139,789	August 2019
Mission Hills Relocatable Clsrm	3,167,610	January 2019
San Marcos Middle School Enhancement	678,092	August 2018
San Marcos Middle School Athletic Fields	1,264,897	August 2018
Technology	1,494,586	August 2018
	<u>\$ 47,224,626</u>	

SAN MARCOS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 13 – PARTICIPATION IN JOINT POWERS AUTHORITIES

The District participates in one joint powers agreement (JPA) entity, the San Diego County Schools Risk Management (SDCSRМ). The relationship between the District and the JPA is such that the JPA is not a component unit of the District.

The JPA arranges for and provides for various types of insurance for its member districts as requested. The JPA is governed by a board consisting of a representative from each member district. The board controls the operations of the JPA, including selection of management and approval of operating budgets, independent of any influence by the member districts beyond their representation on the board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionate to their participation in the JPA.

Additional information can be obtained by contacting the JPA at 6401 Linda Vista Road, San Diego, California 92111.

NOTE 14 – DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

A. Refunded Debt

Pursuant to GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, the District recognized deferred outflows or inflows of resources in the District-wide financial statements. The deferred outflow of resources pertains to the difference in the carrying value of the refunded debt and its reacquisition price (deferred amount on refunding). Previous financial reporting standards require this to be presented as part of the District's long-term debt. This deferred outflow of resources is recognized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the new debt, whichever is shorter. At June 30, 2018, the deferred amount on refunding was \$20,262,873.

B. Pension Plans

Pursuant to GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, the District recognized deferred outflows of resources related to pensions and deferred inflows of resources related to pensions in the District-wide financial statements. Further information regarding the deferred outflows of resources and deferred inflows of resources can be found at Note 11. At June 30, 2018, total combined deferred outflows related to pensions was \$72,818,402 and total combined deferred inflows related to pensions was \$15,861,963.

C. Other Postemployment Benefits

Pursuant to GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, the District recognized deferred outflows of resources related to other postemployment benefits and deferred inflows of resources related to other postemployment benefits in the District-wide financial statements. Further information regarding the deferred outflows of resources and deferred inflows of resources can be found at Note 10. At June 30, 2018, total deferred inflows related to other postemployment benefits was \$744,057.

SAN MARCOS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 15 – RESTATEMENT OF NET POSITION

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

	Governmental Activities	Business-Type Activities
Net Position - Beginning, as Previously Reported	\$ 71,861,571	\$ 661,057
Restatement	(75,447,040)	40,604
Net Position - Beginning, as Restated	<u>\$ (3,585,469)</u>	<u>\$ 701,661</u>

**REQUIRED SUPPLEMENTARY
INFORMATION**

**SAN MARCOS UNIFIED SCHOOL DISTRICT
GENERAL FUND – BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2018**

	Budgeted Amounts		Actual (Budgetary Basis)	Variances - Final to Actual
	Original	Final		
REVENUES				
LCFF sources	\$ 172,322,097	\$ 171,452,412	\$ 171,448,611	\$ (3,801)
Federal sources	8,073,942	8,831,820	9,087,453	255,633
Other state sources	14,285,729	19,966,276	20,038,461	72,185
Other local sources	10,778,734	13,688,083	13,768,737	80,654
Total Revenues	205,460,502	213,938,591	214,343,262	404,671
EXPENDITURES				
Certificated salaries	99,314,178	99,413,323	99,413,320	3
Classified salaries	29,622,367	31,364,160	31,364,247	(87)
Employee benefits	59,402,207	58,991,406	58,991,544	(138)
Books and supplies	9,526,565	6,751,140	6,835,787	(84,647)
Services and other operating expenditures	17,644,752	18,487,882	18,637,622	(149,740)
Capital outlay	1,421,648	1,695,515	1,724,658	(29,143)
Other outgo				
Excluding transfers of indirect costs	2,281,589	2,213,620	2,210,644	2,976
Transfers of indirect costs	(286,734)	(295,333)	(273,937)	(21,396)
Total Expenditures	218,926,572	218,621,713	218,903,885	(282,172)
Excess (Deficiency) of Revenues Over Expenditures	(13,466,070)	(4,683,122)	(4,560,623)	122,499
Other Financing Sources (Uses)				
Transfers in	-	300,000	300,000	-
Transfers out	(10,000)	(10,000)	(10,000)	-
Net Financing Sources (Uses)	(10,000)	290,000	290,000	-
NET CHANGE IN FUND BALANCE	(13,476,070)	(4,393,122)	(4,270,623)	122,499
Fund Balance - Beginning	35,083,271	35,083,271	35,083,271	-
Fund Balance - Ending	\$ 21,607,201	\$ 30,690,149	\$ 30,812,648	\$ 122,499

See accompanying note to required supplementary information.

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

	<u>June 30, 2018</u>
Total OPEB Liability	
Service Cost	\$ 1,502,989
Interest on total OPEB liability	3,141,241
Changes of assumptions	(1,116,086)
Benefits payments	<u>(3,889,875)</u>
Net change in total OPEB liability	(361,731)
Total OPEB liability - beginning	<u>92,831,379</u>
Total OPEB liability - ending	<u>\$ 92,469,648</u>
Covered payroll	\$ 49,683,000
District's total OPEB liability as a percentage of covered payroll	186.12%

See accompanying note to required supplementary information.

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

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
District's proportion of the net pension liability	0.178%	0.169%	0.173%	0.158%
District's proportionate share of the net pension liability	\$ 164,366,199	\$ 140,102,044	\$ 112,420,785	\$ 91,746,090
State's proportionate share of the net pension liability associated with the District	<u>97,238,448</u>	<u>74,044,823</u>	<u>62,274,619</u>	<u>53,878,755</u>
Total	<u>\$ 261,604,647</u>	<u>\$ 214,146,867</u>	<u>\$ 174,695,404</u>	<u>\$ 145,624,845</u>
District's covered payroll	\$ 94,544,459	\$ 86,061,631	\$ 76,961,227	\$ 70,088,800
District's proportionate share of the net pension liability as a percentage of its covered payroll	173.9%	162.8%	146.1%	130.9%
Plan fiduciary net position as a percentage of the total pension liability	69.5%	70.0%	74.0%	76.5%

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

SAN MARCOS UNIFIED SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
- CALPERS
FOR THE YEAR ENDED JUNE 30, 2018

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
District's proportion of the net pension liability	0.199%	0.191%	0.188%	0.191%
District's proportionate share of the net pension liability	\$ 47,410,470	\$ 37,980,557	\$ 27,763,644	\$ 21,671,798
District's covered payroll	\$ 25,371,097	\$ 23,287,617	\$ 20,946,258	\$ 20,042,126
District's proportionate share of the net pension liability as a percentage of its covered payroll	186.9%	163.1%	132.5%	108.1%
Plan fiduciary net position as a percentage of the total pension liability	71.9%	73.9%	79.4%	83.4%

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

**SAN MARCOS UNIFIED SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS - CALSTRS
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Contractually required contribution	\$ 14,236,449	\$ 11,893,693	\$ 8,813,587	\$ 6,658,167
Contributions in relation to the contractually required contribution*	(14,236,449)	(11,893,693)	(8,813,587)	(6,658,167)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 98,882,242	\$ 94,544,459	\$ 86,061,631	\$ 76,961,227
Contributions as a percentage of covered payroll	14.40%	12.58%	10.24%	8.65%

*Amounts do not include on-behalf contributions

**SAN MARCOS UNIFIED SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS - CALPERS
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Contractually required contribution	\$ 4,076,409	\$ 3,523,538	\$ 3,179,710	\$ 2,641,574
Contributions in relation to the contractually required contribution	(4,076,409)	(3,523,538)	(3,179,710)	(2,641,574)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 27,118,428	\$ 25,371,097	\$ 23,287,617	\$ 20,946,258
Contributions as a percentage of covered payroll	15.03%	13.89%	13.65%	12.61%

See accompanying note to required supplementary information.

**SAN MARCOS UNIFIED SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 1 – PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

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

Schedule of Changes in Total OPEB Liability and Related Ratios

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

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

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

Changes in Benefit Terms

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

Changes in Assumptions

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

SAN MARCOS UNIFIED SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION, continued
FOR THE YEAR ENDED JUNE 30, 2018

NOTE 1 – PURPOSE OF SCHEDULES (continued)

Schedule of District Contributions

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

NOTE 2 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

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

	Expenditures and Other Uses		
	Budget	Actual	Excess
General Fund			
Classified salaries	\$ 31,364,160	\$ 31,364,247	\$ 87
Employee benefits	\$ 58,991,406	\$ 58,991,544	\$ 138
Books and supplies	\$ 6,751,140	\$ 6,835,787	\$ 84,647
Services and other operating expenditures	\$ 18,487,882	\$ 18,637,622	\$ 149,740
Capital outlay	\$ 1,695,515	\$ 1,724,658	\$ 29,143

**SUPPLEMENTARY
INFORMATION**

**SAN MARCOS UNIFIED SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018**

Federal Grantor/Pass-Through Grantor/Program or Cluster	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U. S. DEPARTMENT OF EDUCATION:			
<i>Passed through California Department of Education:</i>			
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329	\$ 2,893,162
Title I, Part G, Advanced Placement Test Fee Reimbursement Adult Education	84.357	14328	8,654
Adult Education: Adult Secondary Education	84.002	13978	10,125
Adult Education: English Literacy and Civics Education	84.002A	14109	8,315
Subtotal Adult Education			<u>18,440</u>
Title II, Part A, Teacher Quality	84.367	14341	481,673
Title II, Part B, CA Mathematics and Science Partnerships	84.366	14512	47,134
Title III			
Title III, English Learner Student Program	84.365	14346	256,360
Title III, Immigrant Education Program	84.365	15146	9,711
Subtotal Title III			<u>266,071</u>
Title IV, Part B, 21st Century Community Learning Centers Program	84.287	14349	424,065
Title VI, Flexibility & Accountability - Standardized Testing and Reporting	84.369	14364	18,565
Special Education Cluster			
IDEA Basic Local Assistance Entitlement, Part B, Sec 611	84.027	13379	3,300,008
IDEA Local Assistance, Part B, Sec 611, Private School ISPs	84.027	10115	5,540
IDEA Mental Health Average Daily Attendance (ADA) Allocation, Part B, Sec 611	84.027A	15197	232,381
IDEA Preschool Grants, Part B, Section 619 (Age 3-4-5)	84.173	13430	114,145
IDEA Preschool Local Entitlement, Part B, Section 611 (AGE 3-4-5)	84.027A	13682	352,886
IDEA Preschool Staff Development, Part B, Sec 619	84.173A	13431	1,207
Subtotal Special Education Cluster			<u>4,006,167</u>
Vocational Programs: Voc & Appl Tech Secondary II C, Sec 131 (Carl Perkins Act)	84.048	14893	111,398
Gear Up Program	84.334(A)	10088	290,379
Total U. S. Department of Education			<u><u>8,565,708</u></u>
U. S. DEPARTMENT OF AGRICULTURE:			
<i>Passed through California Department of Education:</i>			
Child Nutrition Cluster [1]			
School Breakfast Program - Basic	10.553	13525	41,211
School Breakfast Program - Needy	10.553	13526	810,846
National School Lunch Program	10.555	13391	3,445,772
USDA Commodities [2]	10.555	*	553,836
Summer Food Service Program for Children	10.559	13004	131,501
Subtotal Child Nutrition Cluster			<u>4,983,166</u>
CACFP Claims - Centers and Family Day Care	10.558	13666	348,151
Fresh Fruit and Vegetable Program	10.582	14968	43,588
Total U. S. Department of Agriculture			<u><u>5,374,905</u></u>
U. S. DEPARTMENT OF DEFENSE:			
<i>Passed through California Department of Airforce:</i>			
Airforce Junior ROTC	12.800	*	71,156
Total U. S. Department of Defense			<u><u>71,156</u></u>
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
<i>Passed through California Department of Health Services:</i>			
Medicaid			
Medi-Cal Billing Option	93.778	10013	307,490
Medi-Cal Administrative Activities	93.778	10060	454,042
Subtotal Medicaid			<u>761,532</u>
Total U. S. Department of Health & Human Services			<u>761,532</u>
Total Federal Expenditures			<u><u>\$ 14,773,301</u></u>

[1] - Major Program

[2] - In-Kind Contribution

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

**SAN MARCOS UNIFIED SCHOOL DISTRICT
SCHEDULE OF AVERAGE DAILY ATTENDANCE (ADA)
FOR THE YEAR ENDED JUNE 30, 2018**

	Second Period Report C2228737	Annual Report C9BB0DFD
SCHOOL DISTRICT		
TK/K through Third		
Regular ADA	6,155.39	6,169.49
Extended Year Special Education	6.77	6.77
Special Education - Nonpublic Schools	-	0.17
Total TK/K through Third	6,162.16	6,176.43
Fourth through Sixth		
Regular ADA	4,918.69	4,913.05
Extended Year Special Education	2.98	2.98
Special Education - Nonpublic Schools	8.53	9.06
Extended Year Special Education - Nonpublic Schools	0.97	0.97
Total Fourth through Sixth	4,931.17	4,926.06
Seventh through Eighth		
Regular ADA	3,173.30	3,169.83
Extended Year Special Education	2.86	2.86
Special Education - Nonpublic Schools	6.41	6.90
Extended Year Special Education - Nonpublic Schools	0.76	0.76
Total Seventh through Eighth	3,183.33	3,180.35
Ninth through Twelfth		
Regular ADA	5,817.82	5,791.98
Extended Year Special Education	5.94	5.94
Special Education - Nonpublic Schools	17.64	18.02
Extended Year Special Education - Nonpublic Schools	3.50	3.50
Total Ninth through Twelfth	5,844.90	5,819.44
TOTAL SCHOOL DISTRICT	20,121.56	20,102.28

**SAN MARCOS UNIFIED SCHOOL DISTRICT
SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2018**

Grade Level	Minutes Requirement	2017-18 Actual Minutes	Number of Days	Status
Kindergarten	36,000	36,100	180	Complied
Grade 1	50,400	54,880	180	Complied
Grade 2	50,400	54,880	180	Complied
Grade 3	50,400	54,880	180	Complied
Grade 4	54,000	54,880	180	Complied
Grade 5	54,000	54,880	180	Complied
Grade 6	54,000	60,160	180	Complied
Grade 7	54,000	60,160	180	Complied
Grade 8	54,000	60,160	180	Complied
Grade 9	64,800	64,980	180	Complied
Grade 10	64,800	64,980	180	Complied
Grade 11	64,800	64,980	180	Complied
Grade 12	64,800	64,980	180	Complied

**SAN MARCOS UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2018**

	2019 (Budget)	2018	2017	2016
General Fund - Budgetary Basis				
Revenues And Other Financing Sources	\$ 220,518,219	\$ 214,643,262	\$ 209,132,006	\$ 206,684,904
Expenditures And Other Financing Uses	227,271,445	218,913,885	212,975,632	189,190,840
Net change in Fund Balance	\$ (6,753,226)	\$ (4,270,623)	\$ (3,843,626)	\$ 17,494,064
Ending Fund Balance	\$ 24,059,422	\$ 30,812,648	\$ 35,083,271	\$ 38,926,897
Available Reserves*	\$ 6,830,000	\$ 12,059,401	\$ 17,917,532	\$ 21,026,832
Available Reserves As A Percentage Of Outgo	3.01%	5.51%	8.41%	11.11%
Long-term Debt	\$ 813,353,573	\$ 826,552,557	\$ 665,475,558	\$ 626,126,019
Average Daily Attendance At P-2	20,259	20,122	20,090	19,997

The General Fund ending fund balance has decreased by \$8,114,249 over the past two years. The fiscal year 2018-19 budget projects a further decrease of \$6,753,226. For a District this size, the State recommends available reserves of at least 3% of General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating deficits in two of the past three years and anticipates incurring another operating deficit during the 2018-19 fiscal year. Total long-term obligations have increased by \$200,426,538 over the past two years.

Average daily attendance has increased by 125 ADA over the past two years. ADA is anticipated to increase by 137 during the 2018-19 fiscal year.

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

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

There were no adjustments necessary to reconcile fund balances between the Annual Financial and Budget Report with the Audited Financial Statements.

**SAN MARCOS UNIFIED SCHOOL DISTRICT
 SCHEDULE OF CHARTER SCHOOLS
 FOR THE YEAR ENDED JUNE 30, 2018**

Charter #	Charter School	Status	Included in Audit Report
1983	Pivot Charter School - San Diego II*	Active	No
0723	Bayshore Preparatory Charter**	Closed	No

*Charter school was opened July 1, 2018

**Charter school was closed June 30, 2018

**SAN MARCOS UNIFIED SCHOOL DISTRICT
COMBINING BALANCE SHEET
JUNE 30, 2018**

	Adult Education Fund	Cafeteria Fund	Foundation Special Revenue Fund	Special Reserve Fund for Capital Outlay Projects	Capital Projects Fund for Blended Component Units	Bond Interest & Redemption Fund	Foundation Permanent Fund	Non-Major Governmental Funds
ASSETS								
Cash and investments	\$ 23,015	\$ 1,493,381	\$ 55,173	\$ 1,299,513	\$ 7,412,621	\$ 17,639,969	\$ 37,689	\$ 27,961,361
Accounts receivable	18,541	978,440	254	5,949	12,850	-	173	1,016,207
Due from other funds	-	3,306	-	-	-	-	-	3,306
Stores inventory	-	193,759	-	-	-	-	-	193,759
Total Assets	\$ 41,556	\$ 2,668,886	\$ 55,427	\$ 1,305,462	\$ 7,425,471	\$ 17,639,969	\$ 37,862	\$ 29,174,633
LIABILITIES								
Accrued liabilities	\$ 24,028	\$ 166,414	\$ -	\$ -	\$ 17,277	\$ -	\$ -	\$ 207,719
Due to other funds	2,675	490,103	225	-	-	-	-	493,003
Unearned revenue	-	111,712	-	-	-	-	-	111,712
Total Liabilities	26,703	768,229	225	-	17,277	-	-	812,434
FUND BALANCES								
Non-spendable	-	203,759	-	-	-	-	-	203,759
Restricted	14,853	1,696,898	-	1,305,462	7,408,194	17,639,969	37,862	28,103,238
Committed	-	-	55,202	-	-	-	-	55,202
Total Fund Balances	14,853	1,900,657	55,202	1,305,462	7,408,194	17,639,969	37,862	28,362,199
Total Liabilities and Fund Balance	\$ 41,556	\$ 2,668,886	\$ 55,427	\$ 1,305,462	\$ 7,425,471	\$ 17,639,969	\$ 37,862	\$ 29,174,633

See accompanying note to supplementary information.

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

	Adult Education Fund	Cafeteria Fund	Foundation Special Revenue Fund	Special Reserve Fund for Capital Outlay Projects	Capital Projects Fund for Blended Component Units	Bond Interest & Redemption Fund	Foundation Permanent Fund	Non-Major Governmental Funds
REVENUES								
Federal sources	\$ 18,440	\$ 5,374,906	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,393,346
Other state sources	88,065	345,420	-	-	-	93,206	-	526,691
Other local sources	352	1,969,119	893	19,535	6,389,030	13,947,277	567	22,326,773
Total Revenues	106,857	7,689,445	893	19,535	6,389,030	14,040,483	567	28,246,810
EXPENDITURES								
Current								
Instruction	92,408	-	2,025	-	-	-	-	94,433
Instruction-related services								
School site administration	16,878	-	-	-	-	-	-	16,878
Pupil services								
Food services	-	7,641,178	-	-	-	-	-	7,641,178
General administration								
All other general administration	2,675	271,262	-	-	-	-	-	273,937
Plant services	-	28,310	-	-	1,160,258	-	-	1,188,568
Ancillary services	-	-	400	-	-	-	-	400
Community services	-	-	2,000	-	-	-	-	2,000
Enterprise activities	-	4,655	-	-	-	-	-	4,655
Debt service								
Principal	-	-	-	-	1,695,000	2,025,977	-	3,720,977
Interest and other	-	-	-	-	1,523,131	9,453,385	-	10,976,516
Total Expenditures	111,961	7,945,405	4,425	-	4,378,389	11,479,362	-	23,919,542
Excess (Deficiency) of Revenues Over Expenditures	(5,104)	(255,960)	(3,532)	19,535	2,010,641	2,561,121	567	4,327,268
Other Financing Sources (Uses)								
Other sources	-	-	-	-	-	126,849,511	-	126,849,511
Transfers out	-	-	-	-	(2,435,755)	-	-	(2,435,755)
Other uses	-	-	-	-	-	(125,861,736)	-	(125,861,736)
Net Financing Sources (Uses)	-	-	-	-	(2,435,755)	987,775	-	(1,447,980)
NET CHANGE IN FUND BALANCE	(5,104)	(255,960)	(3,532)	19,535	(425,114)	3,548,896	567	2,879,288
Fund Balance - Beginning	19,957	2,156,617	58,734	1,285,927	7,833,308	14,091,073	37,295	25,482,911
Fund Balance - Ending	\$ 14,853	\$ 1,900,657	\$ 55,202	\$ 1,305,462	\$ 7,408,194	\$ 17,639,969	\$ 37,862	\$ 28,362,199

See accompanying note to supplementary information.

SAN MARCOS UNIFIED SCHOOL DISTRICT
LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2018

The Board of Supervisors of San Diego County adopted a resolution on May 27, 1975, creating a new unified school district comprising the area of Rich-Mar Union School District named "San Marcos Unified School District". The District serves the San Marcos community located in north San Diego County. The District operates eleven elementary schools, three middle schools, one K-8 school, two comprehensive high schools, a continuation high school, one independent study high school (one high school with two distinct programs and campuses), and an adult school.

GOVERNING BOARD

Member	Office	Term Expires
Stacy Carlson	President	December 2018
Randall Walton	Vice President	December 2020
Janet McClean	Clerk	December 2020
Pam Lindamood	Member	December 2018
Victor Graham	Member	December 2020

DISTRICT ADMINISTRATORS

Melissa Hunt
Superintendent

Mark Schiel
Assistant Superintendent of Business Services

Gina Bishop
Assistant Superintendent of Instructional Services

Henry Voros
Assistant Superintendent of Human Resources

David McAdams
Executive Director of Finance

**SAN MARCOS UNIFIED SCHOOL DISTRICT
 NOTES TO SUPPLEMENTARY INFORMATION
 JUNE 30, 2018**

NOTE 1 – PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

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

	CFDA	
	Number	Amount
	<hr/>	<hr/>
Total Federal Revenues reported in the Statement of Revenues, Expenditures, and Changes in Fund Balance		\$ 14,480,799
Medi-Cal Billing Option	93.778	<u>292,502</u>
Total Expenditures reported in the Schedule of Expenditures of Federal Awards		<u>\$ 14,773,301</u>

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

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of *Education Code Sections 46200 through 46208*. During the year ended June 30, 2018, the District participated in the Longer Day incentive funding program. As of June 30, 2018, the District had not yet met its target funding.

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.

SAN MARCOS UNIFIED SCHOOL DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION, continued
JUNE 30, 2018

NOTE 1 – PURPOSE OF SCHEDULES (continued)

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

Schedule of Charter Schools

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

Combining Statements – Non-Major Funds

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

Local Education Agency Organization Structure

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

**OTHER INDEPENDENT
AUDITORS' REPORTS**

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

Independent Auditors' Report

Christy White, CPA

Michael D. Ash, CPA

John Whitehouse, CPA

Heather Daud Rubio

SAN DIEGO
LOS ANGELES
SAN FRANCISCO/BAY AREA

Corporate Office:

348 Olive Street
San Diego, CA 92103

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

*Licensed by the California
State Board of Accountancy*

Governing Board
San Marcos Unified School District
San Marcos, 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, business-type activities, each major fund, and the aggregate remaining fund information of San Marcos Unified School District, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the San Marcos Unified 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 San Marcos Unified School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of San Marcos Unified School District's internal control. Accordingly, we do not express an opinion on the effectiveness of San Marcos Unified School District's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether San Marcos Unified School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Christy White Associates

San Diego, California
November 29, 2018

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

Independent Auditors' Report

Christy White, CPA

Michael D. Ash, CPA

John Whitehouse, CPA

Heather Daud Rubio

Governing Board
San Marcos Unified School District
San Marcos, California

Report on Compliance for Each Major Federal Program

We have audited San Marcos Unified 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 San Marcos Unified School District's major federal programs for the year ended June 30, 2018. San Marcos Unified School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of San Marcos Unified School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about San Marcos Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of San Marcos Unified School District's compliance.

SAN DIEGO
LOS ANGELES
SAN FRANCISCO/BAY AREA

Corporate Office:
348 Olive Street
San Diego, CA 92103

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

*Licensed by the California
State Board of Accountancy*

Opinion on Each Major Federal Program

In our opinion, San Marcos Unified School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control Over Compliance

Management of San Marcos Unified School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered San Marcos Unified School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of San Marcos Unified School District's internal control over compliance.

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

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

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

Christy White Associates

San Diego, California
November 29, 2018

REPORT ON STATE COMPLIANCE

Independent Auditors' Report

Governing Board
San Marcos Unified School District
San Marcos, California

Report on State Compliance

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

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of San Marcos Unified School District's state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed in Title 5, *California Code of Regulations*, section 19810 as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the state programs noted below occurred. An audit includes examining, on a test basis, evidence about San Marcos Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance with the requirements referred to above. However, our audit does not provide a legal determination of San Marcos Unified School District's compliance with those requirements.

Opinion on State Compliance

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

Christy White, CPA

Michael D. Ash, CPA

John Whitehouse, CPA

Heather Daud Rubio

SAN DIEGO

LOS ANGELES

SAN FRANCISCO/BAY AREA

Corporate Office:

348 Olive Street
San Diego, CA 92103

toll-free: 877.220.7229

tel: 619.270.8222

fax: 619.260.9085

www.christywhite.com

*Licensed by the California
State Board of Accountancy*

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are described in the accompanying schedule of findings and questioned costs as items #2018-001. Our opinion on state compliance is not modified with respect to these matters.

San Marcos Unified School District’s response to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs and corrective action plan. San Marcos Unified School District’s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Procedures Performed

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

<u>PROGRAM NAME</u>	<u>PROCEDURES PERFORMED</u>
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	No
Continuation Education	Yes
Instructional Time	Yes
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	Not Applicable
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	Not Applicable
Middle or Early College High Schools	Not Applicable
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
Apprenticeship: Related and Supplemental Instruction	Not Applicable
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes

Continued on following page

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

We did not perform testing for independent study because the ADA was below the level which required testing.

Christy White Associates

San Diego, California
November 29, 2018

**SCHEDULE OF FINDINGS
AND QUESTIONED COSTS**

**SAN MARCOS UNIFIED SCHOOL DISTRICT
SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2018**

FINANCIAL STATEMENTS

Type of auditors' report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>None Reported</u>
Non-compliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

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

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>	
<u>10.553, 10.555, 10.559</u>	<u>Child Nutrition Cluster</u>	
Dollar threshold used to distinguish between Type A and Type B programs:	\$	<u>750,000</u>
Auditee qualified as low-risk auditee?		<u>Yes</u>

STATE AWARDS

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

**SAN MARCOS UNIFIED SCHOOL DISTRICT
FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018**

FIVE DIGIT CODE

20000

30000

AB 3627 FINDING TYPE

Inventory of Equipment

Internal Control

There were no financial statement findings for the year ended June 30, 2018.

**SAN MARCOS UNIFIED SCHOOL DISTRICT
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

FIVE DIGIT CODE

50000

AB 3627 FINDING TYPE

Federal Compliance

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

**SAN MARCOS UNIFIED SCHOOL DISTRICT
 STATE AWARD FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED JUNE 30, 2018**

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

FINDING #2018-001 – UNDUPLICATED LOCAL CONTROL FUNDING FORMULA PUPIL COUNTS (40000)

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

Condition: Three (3) out of 15 students tested from the CALPADS 1.18 FRPM/English Learner/Foster Youth – Student List Report who were classified as English Learners (EL) did not have proper supporting documentation to justify their designation. Upon further review of the entire population of students listed as only EL and not receiving FRPM benefits, we identified a total of 54 students that were incorrectly classified as to EL Designation.

Cause: CALPADS reporting information did not appear to accurately reflect the EL information contained in the Synergy Student Information Software.

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

Context: Three (3) of 15 students reported as English Learners did not have proper supporting documentation to support their designation.

(continued on following page)

**SAN MARCOS UNIFIED SCHOOL DISTRICT
 STATE AWARD FINDINGS AND QUESTIONED COSTS (continued)
 FOR THE YEAR ENDED JUNE 30, 2018**

FINDING #2018-001 – UNDUPLICATED LOCAL CONTROL FUNDING FORMULA PUPIL COUNTS (40000)
(continued)

Questioned Costs: \$12,456. This was determined by taking the difference between the District’s original total LCFF revenues and the LCFF revenues adjusted for the decrease in the unduplicated pupil count as calculated below:

CalPADS Unduplicated Pupil Count	Audit Adjustment	Revised Unduplicated Pupil Count
26,103	(54)	26,049

Recommendation: We recommend that the District ensure that CALPADS reporting correctly reflects the EL designation assigned to students upon enrollment and following the completion of any EL evaluations that take place during the year.

Corrective Action Plan: The District has conducted an internal review of the unduplicated local control funding formula pupil counts and identified changes we can make when our school site staff enrolls students. We currently rely on the parent’s entries in our Enrollment Form’s Home Language Survey section to identify whether a student should be referred to our English Learner Resource Center, but given the error rate of this process, we will be conducting internal reviews on an ongoing basis, and not rely on parent’s entries. Also, we will be comparing our CALPADS data with our SIS Data following the same process we do for internal reviews and send any discrepancies to our English Learner Resource Center (ELRC) for further review. Our ELRC will contact the parents, assesses the students, if needed, and will update the student’s classification in our SIS. This process will help us resolve the issues identified.

**SAN MARCOS UNIFIED SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018**

FINDING #2017-001: STUDENT BODY ACTIVITIES – 30000

Criteria: Determine if internal controls are in place over the student body funds that will ensure all student body cash tally sheets, receipts, and deposits are properly calculated and reconcile to supporting deposits, and student body expenditures are valid, approved, and documented to ensure the safeguard of assets of the student body accounts.

Condition: In our review of the receipts and deposits in the student body account for Woodland Park Middle School, we noted two out of seven deposits tested did not have proper signed cash tally sheets as documentation support for the funds collected. The school site utilizes a point-of-sale system for individual student sales; however, special event and other fund-raiser revenues collected did not have proper signed and completed cash tally sheets on hand; therefore, we could not determine if the cash collected was valid and accurate. In addition, upon review of the student body disbursements for San Marcos High School, we noted that checks were being made out to "cash" for the utilization of change fund boxes for athletics and other events recording ticket sales.

Questioned Costs: None

Cause: Insufficient proper training administered to site clerks and limited accounting monitoring and oversight by District personnel caused inadequate internal controls over the deposits and receipts of the Woodland Park Middle School student body account and over the expenditures of the San Marcos High School student body account.

Effect: The student body deposits, receipts, and cash funds of the student body account for Woodland Park Middle School and the expenditures for the San Marcos High School student body account are exposed to significant risk of error and fraud as the proper internal controls are not in place to detect errors and deter fraud.

Recommendation: Provide in-service training to the school site individuals involved in daily student body account operations, including clerks and advisors. Ensure cash tally sheets are properly dated, mathematically accurate, and completed by the preparer at the origin of sales then subsequently verified by a second individual prior to posting to the point-of-sale system. All revenues collected from outside the point-of-sale system should have proper signed and verified cash tally sheets as documentation support for the cash and checks collected. Also, student body checks should not be made out to "cash" as a payee for utilization of change funds for cash boxes. Require checks used for providing funds for cash boxes be made out to an individual as a custodian of the account to prevent any unauthorized cashing of the checks.

**SAN MARCOS UNIFIED SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018**

FINDING #2017-001: STUDENT BODY ACTIVITIES – 30000, (continued)

District Response: The ASB Finance Clerk at San Marcos High School was counseled on the proper method to process checks for cash box purposes. The check in question listed both "cash" and the custodian as the payees has been remedied. Checks will only list the custodian as the payee. The proper documentation of cash receipts, signed tally sheets and the importance of internal cash controls has been conveyed to the ASB Finance Clerk at Woodland Park Middle School. A procedure has been established to assure signed tally sheets accompany all deposits.

Current Status: Implemented