



**ORCUTT
UNION SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2018

ORCUTT UNION SCHOOL DISTRICT

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FINANCIAL SECTION



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

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INDEPENDENT AUDITOR'S REPORT

Governing Board
Orcutt Union School District
Orcutt, California

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Orcutt Union School District, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Change in Accounting Principles

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 20, budgetary comparison schedules on pages 75 and 76, schedule of changes in the District's total OPEB liability and related ratios on page 77, schedule of the District's proportionate share of the net OPEB liability - MPP program on page 78, schedule of the District's proportionate share of net pension liability on page 79, and schedule of District contributions on page 80, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2018, on our consideration of the Orcutt Union School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Orcutt Union School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Orcutt Union School District's internal control over financial reporting and compliance.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 4, 2018

This section of Orcutt Union School District's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2018. Please read it in conjunction with the District's financial statements, which immediately follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

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

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

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

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

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

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

Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements is provided to explain the differences created by the integrated approach.

The Primary unit of the government is the Orcutt Union School District.

ORCUTT UNION SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Position and the Statement of Activities

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

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

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

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

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

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

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

ORCUTT UNION SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

Governmental Funds - Most of the District's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The differences of results in the governmental fund financial statements to those in the government-wide financial statements are explained in a reconciliation following each governmental fund financial statement.

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

THE DISTRICT AS A TRUSTEE

Reporting the District's Fiduciary Responsibilities

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

ORCUTT UNION SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2017-2018 fiscal year include the following:

- Combined fund balance for the District is \$41 million. This is an increase of \$ 19.2 million from prior year.
- This is the fifth year of the new State funding formula which is now the Local Control Funding Formula (LCFF).
- Overall increase in funding from prior year LCFF is 1.84 percent.
- Negotiated with bargaining units to provide a one-time bonus for 2017-2018 of \$1,280/FTE for both certificated and classified personnel.
- Early Retirement Incentive of \$25,000 offered to certificated staff meeting certain requirements.

Enrollment

The number of students served is the basis for most revenues that flow into the District. The most consistent measurement of enrollment by school districts in California is the enrollment count in October of each year. The count in October, as mandated by the State, is utilized to give districts consistent numbers for a year-to-year analysis. This enrollment is called CALPADS (California Longitudinal Pupil Achievement Data System, previously known as CSIS.) Although the October CALPADS is the first solid indicator of enrollment for the year, the District's largest source of revenue in any fiscal year is based on P-2 ADA. This is the second period of Average Daily Attendance which is the average student attendance between July 1 and April 15. The District receives money only on those students who actually attend school. Annual ADA is calculated at year end and adjustments are made in the subsequent year. The percentage of enrollment to ADA for the current year is 95.65 percent.

Comparisons

In 2017-2018, the traditional District operated within the General Fund decreased by 12 ADA while the Orcutt Academy Charter School, operated within Fund 09, decreased by 3 ADA. The traditional District enrollment is declining and is projected to continue to decline slightly in the next few years, unless the District chooses to accept an increased number of students from neighboring districts. Unless the Independent Study portion of the Charter School increases, the Charter School is anticipated to flatten out as well. The Independent Study portion of the Charter School utilizes three classrooms at the Casmalia School site.

ORCUTT UNION SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

Chart A-1 Enrollment/ADA

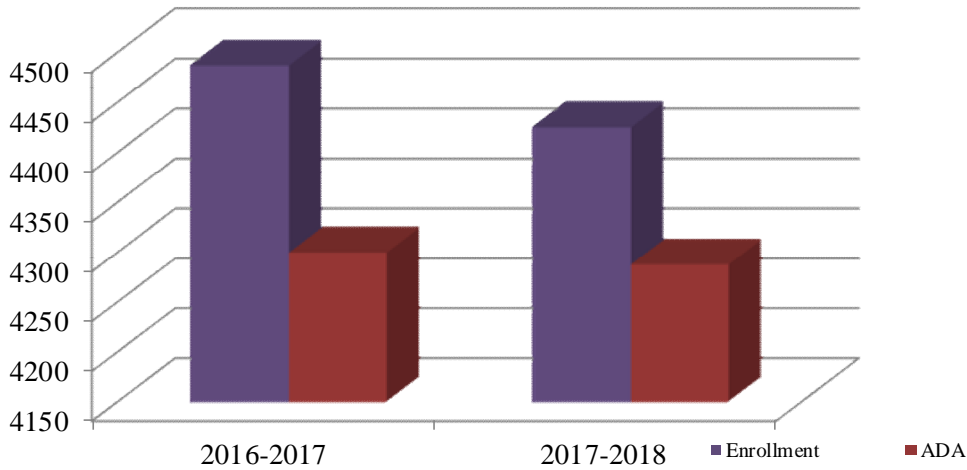
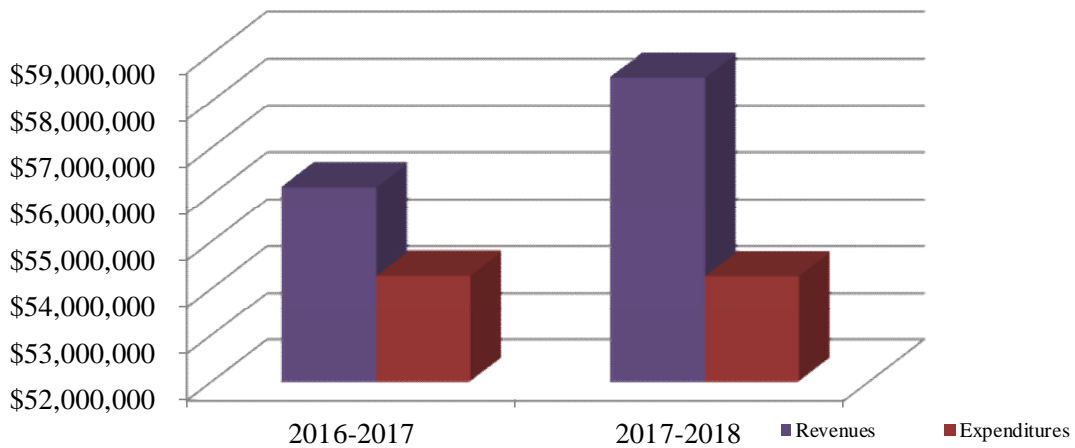


Chart A-2 Revenue/Expenditures All Governmental Funds



Total Local Control Funding Formula revenues in fiscal year 2017-2018 increased by approximately \$777,184 or 1.84 percent. Total revenue for the District increased approximately \$2,340,373 or 4.17 percent.

As exhibited below in Table A-1, with the exception of the significant transfer of categorical dollars to LCFF, revenue sources increased.

ORCUTT UNION SCHOOL DISTRICT

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

COMPARISON OF ALL GOVERNMENTAL REVENUES

Table A-1

	Fiscal Year 2016-2017	Fiscal Year 2017-2018	Percent Increase (Decrease)
Local Control Funding Formula	\$ 42,307,355	\$ 43,084,539	1.84 %
Federal Sources	2,606,717	3,001,989	15.16
Other State Sources	6,793,803	5,486,434	(19.24)
Other Local Sources	4,475,648	6,850,934	53.07
Total Revenues	\$ 56,183,523	\$ 58,423,896	3.99 %

COMPARISON OF ALL GOVERNMENTAL EXPENDITURES

Table A-2

	Fiscal Year 2016-2017	Fiscal Year 2017-2018	Percent Increase (Decrease)
Governmental Activities			
Instruction	\$ 33,741,269	\$ 32,935,798	(2.39) %
Instruction Related Services:			
Supervision of instruction	1,760,987	2,000,176	13.58
Instructional library, media, and technology	1,126,567	1,060,686	(5.85)
School site administration	3,249,770	3,315,330	2.02
Pupil Services:			
Home to school transportation	1,167,548	1,194,275	2.29
Food services	1,888,743	1,921,448	1.73
All other pupil services	1,835,578	2,005,366	9.25
General Administration:			
All other general administration	2,531,139	2,619,056	3.47
Plant services	4,366,200	4,233,082	(3.05)
Facility acquisition and construction	263,104	562,537	100.00
Ancillary services	339,892	348,305	2.48
Community services	962,417	939,336	(2.40)
Other outgo	-	984,639	-
Principal	690,000	705,000	100.00
Interest long-term debt and other outgo	372,218	447,214	20.15
Total	\$ 54,295,432	\$ 55,272,248	1.80 %

ORCUTT UNION SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

The District's overall expenditures decreased by approximately \$976,816 in fiscal year 2017-2018. Most expenditures increased due to the negotiated settlement with bargaining groups. Pupil services increases are due to providing additional support to counseling and other general administrative costs increases are due to additional charter administrative expenditures in addition to negotiated settlements.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. This annual report is comprised of three components: 1) management's discussion and analysis (this section), 2) the basic financial statements, and 3) required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

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

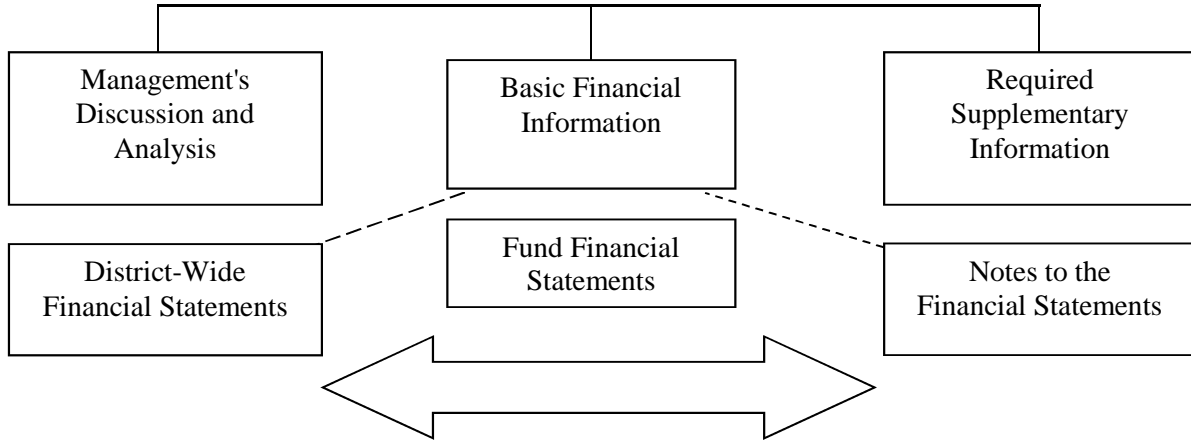
The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

ORCUTT UNION SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

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



SUMMARY DETAIL

Figure A-2 summarizes the major features of the District's financial statements, including a portion of the District's activities covered and the types of information contained.

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

Type of Statements	District-Wide	Governmental Funds	Proprietary Funds	Fiduciary Funds
<i>Scope</i>	Entire District, except fiduciary activities	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities of the District that operate like a business, such as self-insurance funds	Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activities monies
<i>Required Financial Statements</i>	<ul style="list-style-type: none"> • Statement of Net Position • Statement of Activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures, and Changes in Fund Balances 	<ul style="list-style-type: none"> • Statement of Net Position • Statement of Activities • Statement of Cash Flows 	<ul style="list-style-type: none"> • Statement of Fiduciary Net Position • Statement of Changes in Fiduciary Net Position
<i>Accounting Basis and Measurement Focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus

ORCUTT UNION SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

Figure A-2 Major Features of the District-Wide and Fund Financial Statements (Continued)

Type of Statements	District-Wide	Governmental Funds	Proprietary Funds	Fiduciary Funds
<i>Type of Asset/Liability Information</i>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both short-term and long-term; the District's funds do not currently contain non-financial assets, though they can	All assets and liabilities, both short-term and long-term; the District's funds do not currently contain non-financial assets, though they can
<i>Type of Inflow/Outflow Information</i>	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during the year, regardless of when cash is received or paid

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

District-Wide Statements

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

The two District-wide statements report the District's net position and how they have changed. Net position, the difference between the District's assets and liabilities, are one way to measure the District's financial health or position.

- Over time, increases and decreases in the District's net position are indicators of whether its financial position is improving or deteriorating.
- To assess the overall health of the District, you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.
- In the District-wide financial statements, the District's activities are categorized as *Governmental Activities*. Most of the District's basic services are included here, such as regular and special education, transportation, and administration. Property taxes and State formula aid finance most of these activities.

ORCUTT UNION SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

Fund Financial Statements

The fund financial statements focus on the District's most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (i.e. repaying its long-term debt) or to show that it is properly using certain revenues (i.e. Federal grants).

The District has two kinds of funds:

- *Governmental funds* – Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the District-wide statements, we provide additional information at the bottom of the governmental funds a statement that explains the relationships (or differences) between them.
- *Fiduciary funds* – The District is the trustee, or fiduciary, for assets that belong to others, such as the retiree fund and student body funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position. We exclude these activities from the District-wide financial statements because the District cannot use these assets to finance its operations.

Notes to the Financial Statements

The notes provide additional information that is essential to the full understanding of the data provided in the District-wide and fund financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* including the budgetary schedules for the major funds and the notes to the budgetary schedules.

Results of the State and federally mandated *Single Audit*, which includes auditor's opinions, schedules of State and Federal awards, and schedules of findings and questioned costs, are also included in this section.

ORCUTT UNION SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position

The District's net position (deficit) was \$(7,460,184) for the fiscal year ended June 30, 2018, and \$(7,965,036) at June 30, 2017. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the governing board's ability to use the net position for day-to-day operations. Our analysis below, in summary form, focuses on the net position (Table 1) and change in net position (Table 2) of the District's governmental activities.

Table 1

	Governmental Activities	
	(as restated)	
	2018	2017
Assets		
Current and other assets	\$ 45,133,938	\$ 25,878,202
Capital assets	28,700,257	29,395,476
Total Assets	73,834,195	55,273,678
Deferred Outflow of Resources		
Deferred outflows of resources related to pensions	14,941,433	10,468,038
Liabilities		
Current liabilities	4,216,297	4,196,624
Long-term obligations	38,356,343	22,563,785
Net pension liability	49,388,743	45,227,686
Total Liabilities	91,961,383	71,988,095
Deferred Inflow of Resources		
Deferred inflows of resources related to pensions	(4,274,429)	1,718,657
Net Position		
Investment in capital assets	16,979,372	18,265,476
Restricted	10,147,810	6,699,484
Unrestricted (deficit)	(34,587,366)	(32,929,996)
Total Net Position (Deficit)	\$ (7,460,184)	\$ (7,965,036)

The \$(34,587,366) in unrestricted net deficit position of governmental activities represents the accumulated results of all past years' operations.

ORCUTT UNION SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

Changes in Net Position

The results of this year's operations for the District as a whole are reported in the *Statement of Activities* on page 22. Table 2 takes the information from the Statement, rounds off the numbers, and rearranges them slightly so you can see our total revenues for the year.

Table 2

	<u>Governmental Activities</u>	
	<u>2018</u>	<u>2017</u>
Revenues		
Program revenues:		
Charges for services	\$ 721,976	\$ 659,987
Operating grants and contributions	7,864,872	7,846,834
General revenues:		
Federal and State aid not restricted	29,191,797	30,110,399
Property taxes	16,881,439	15,305,707
Other general revenues	4,077,805	2,485,015
Total Revenues	<u>58,737,889</u>	<u>56,407,942</u>
Expenses		
Instruction-related	41,798,679	40,830,011
Pupil services	5,308,373	5,025,984
Administration	2,758,726	2,656,570
Plant services	5,406,235	5,390,912
Other	2,961,024	1,686,572
Total Expenses	<u>58,233,037</u>	<u>55,590,049</u>
Change in Net Position	<u>\$ 504,852</u>	<u>\$ 817,893</u>

Governmental Activities

As reported in the *Statement of Activities* on page 22, the cost of all of our governmental activities this year was \$58.2 million. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$16.9 million because the cost was paid by those who benefited from the programs (\$.7 million) or by other governments and organizations who subsidized certain programs with grants and contributions (\$7.8 million). We paid for the remaining "public benefit" portion of our governmental activities with \$33.3 million in State funds and with other revenues, like interest and general entitlements.

ORCUTT UNION SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

In Table 3, we have presented the cost and net cost of each of the District's largest functions: instruction including instructional supervision and administration, pupil services, administration, plant services, and all other services. As discussed above, 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.

Table 3

	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Instruction	\$ 34,788,364	\$ 34,146,396	\$ 29,477,597	\$ 28,708,217
Instructional supervision and administration	7,010,315	6,683,615	6,663,456	6,480,921
Pupil services	5,308,373	5,025,984	2,933,396	2,707,324
Administration	2,758,726	2,656,570	2,642,404	2,503,364
Plant services	5,406,235	5,390,912	5,384,691	5,067,617
All other services	2,961,024	1,686,572	2,544,645	1,615,785
Total	\$ 58,233,037	\$ 55,590,049	\$ 49,646,189	\$ 47,083,228

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The financial performance of the District as a whole is reflected in its governmental funds. As the District completed this fiscal year, its governmental funds reported a combined fund balance/net position of \$41,007,849. This is an increase over last year. The District's governmental activities had more revenues than expenditures in 2018.

Beginning in fiscal year 2010-2011, GASB Statement No. 54 stated that Fund 20, Postemployment Benefits Fund, is not substantially composed of restricted or committed revenue sources. For this year, the fund will remain open for internal reporting purposes; however, it will be reported in these financials as an extension of the General Fund and, accordingly, combined with the General Fund for presentation in these audited financial statements.

ORCUTT UNION SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

As the District completed this year, our governmental funds reported a combined fund balance of \$41 million, which is an increase of \$19.2 million from last year (Table 4).

Table 4

	Balances and Activity			
	July 1, 2017	Revenues	Expenditures	June 30, 2018
General Fund	\$ 13,958,269	\$ 46,527,136	\$ 43,788,900	\$ 16,696,505
Charter School Fund	1,408,413	7,670,484	7,783,656	1,295,241
Building Fund	-	15,211,790	441,275	14,770,515
Capital Facilities Fund	3,707,128	792,662	41,468	4,458,322
Non-Major Governmental Funds	2,715,991	4,338,233	3,266,958	3,787,266
Total	\$ 21,789,801	\$ 74,540,305	\$ 55,322,257	\$ 41,007,849

General Fund Budgetary Highlights

Over the course of the year, the District revised the annual operating budget several times. The major budget amendments fall into these categories:

- Revenues – increases to account for LCFF and school donations.
- Salaries and benefits costs – salary and benefits are typically increased to account for approved negotiated agreements, changes in staffing in addition to health benefits.
- Non-Capital expenses – increased to re-budget carryover funds and revise operational cost estimates.

Education Protection Act

The Education Protection Act (EPA) was created as a result of Proposition 30 which was passed by the electorate in November 2012. Revenues from taxes are deposited into the EPA account and the funds are released to K-14 school agencies. EPA funds did not provide additional funds to districts but instead are an offset from what otherwise would have been provided by the State of California. Proposition 30 did, however, help remove the threat of continued cuts to schools which was a welcome relief. The funds come with requirements that must be met. Each year local school agencies are required to discuss the plan to spend EPA funds in a public meeting of the governing board, and the funds cannot be used for administrative costs. At the end of each fiscal year, each local school agency is required to post on its website a report of the amount of EPA funds received for the year along with an accounting of how the funds were spent.

ORCUTT UNION SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2018, the District had \$28.7 million in a broad range of capital assets (net decrease of depreciation), including land, buildings and improvements, and equipment. This amount represents a net decrease (including additions, deductions, and depreciation) of \$695,219 or less than 2 percent, from last year (Table 5).

	Governmental Activities	
	2018	2017
Land and construction in progress	\$ 1,878,255	\$ 1,878,255
Buildings and improvements	42,605,723	42,559,169
Equipment	9,469,867	8,483,910
Less accumulated depreciation	(25,253,588)	(23,525,858)
Total	\$ 28,700,257	\$ 29,395,476

Long-Term Obligations

At the end of this year, the District had \$25.6 million in bonds outstanding versus \$11.1 million last year, an increase of 57 percent. Long-term obligations consisted of:

	Governmental Activities	
	2018	(as restated) 2017
General obligation bonds (financed with property taxes)	\$ 25,635,000	\$ 11,130,000
Premium on issuance	856,400	-
Compensated absence payable	251,585	300,917
Supplemental Early Retirement	136,500	-
Total OPEB liability	11,476,858	11,132,868
Total	\$ 38,356,343	\$ 22,563,785

Net Pension Liability (NPL)

At year end, the District had a pension liability of \$49,388,743, as a result of the adoption of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. The District therefore recorded its proportionate share of net pension liabilities for CalSTRS and CalPERS.

	Governmental Activities	
	2018	2017
Net pension liability	\$ 49,388,743	\$ 45,227,686

ORCUTT UNION SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

FACTORS BEARING ON THE DISTRICT'S FUTURE

In November 2012, Proposition 30 was approved by the electorate. This measure:

- Increased personal income tax on annual earnings over \$250,000 for seven years.
- Increased sales and use tax by ¼ cent for four years.
- Allocated temporary tax revenues for K-14 and other State funding uses.
- Raises approximately \$6 billion in revenues for most years, with smaller amounts in this last year of the tax increase.

For education in the State, this provided a relief from ongoing cuts and a means to at least maintain the same level of expenditures as in the previous year. It also allowed the State to buy down deferrals from previous years. As Proposition 30 is eliminated, the District will most likely experience diminished or flat funding in the future.

This is the fifth year of the Local Control Funding Formula (LCFF) which is a drastic change from the State revenue limit and categorical funding formula that has been in place for at least 40 years. The LCFF was designed to close the achievement gap and provides for a different distribution of dollars, not new funding. It only guarantees that the District will receive what would have been received in 2007-08 had we been fully funded. The new State formula funds base grants, plus supplemental and concentration grants based on the percentage of economically disadvantaged students, foster youth and English Learners. The formula will be phased in over an eight year period with the hope that the State economy will recover over this time to back fill tax increases that will expire. It remains questionable as to the reasonableness of the State actually being able to fund LCFF over a period of eight years. In reality, there are many competing agencies such as health and social services, higher education, and prisons that also compete for the same dollars. All agencies have suffered with severe budget cuts over the period of the "Great Recession" and are anxious to see some relief. Funding LCFF relies on a very robust economic recovery.

Under LCFF, the District receives only modest increases in comparison to neighboring districts in the Santa Maria Valley due to its demographic profile. This will make it increasingly more difficult to attract and retain high quality staff. The total impact on the finances of the District will continue to be extremely challenging as California continues to rank close to last in the nation in funding schools on a per student basis while still requiring high standards. Projected STRS and PERS increases over the next seven years at minimum without salary increases or additional staffing will be approximately \$2.5 million dollars. Adequacy of funding will be one of the most important issues for the District into the future.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact Mr. Walter Con, Assistant Superintendent of Business Services, at Orcutt Union School District, 500 Dyer Street, Orcutt, California, 93455, or e-mail at wcon@orcutt-schools.net.

ORCUTT UNION SCHOOL DISTRICT

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

	Governmental Activities
ASSETS	
Deposits and investments	\$ 42,374,466
Receivables	2,680,426
Stores inventories	79,046
Capital assets:	
Land and construction in process	1,878,255
Other capital assets	52,075,590
Capital assets, net of accumulated depreciation	<u>(25,253,588)</u>
Total Capital Assets	<u>28,700,257</u>
Total Assets	<u>73,834,195</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources related to pensions	<u>14,941,433</u>
LIABILITIES	
Accounts payable	4,021,165
Interest payable	138,887
Unearned revenue	56,245
Long-term obligations:	
Current portion of long-term obligations other than pensions	1,911,500
Noncurrent portion of long-term obligations other than pensions	<u>36,444,843</u>
Total Long-Term Obligations	<u>38,356,343</u>
Aggregate net pension liability	<u>49,388,743</u>
Total Liabilities	<u>91,961,383</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to pensions	<u>4,274,429</u>
NET POSITION	
Net investment in capital assets	16,979,372
Restricted for:	
Debt service	1,913,007
Capital projects	4,458,322
Educational programs	1,058,254
Other activities	2,718,227
Unrestricted (deficit)	<u>(34,587,366)</u>
Total Net Position (Deficit)	<u>\$ (7,460,184)</u>

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

ORCUTT UNION SCHOOL DISTRICT

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

Functions/Programs	Expenses	Program Revenues		Net (Expenses)
		Charges for Services and Sales	Operating Grants and Contributions	Revenues and Changes in Net Position
				Governmental Activities
Governmental Activities:				
Instruction	\$ 34,788,364	\$ 24,746	\$ 5,286,021	\$ (29,477,597)
Instruction-related activities:				
Supervision of instruction	2,367,359	492	322,557	(2,044,310)
Instructional library, media, and technology	1,100,318	-	-	(1,100,318)
School site administration	3,542,638	-	23,810	(3,518,828)
Pupil services:				
Home-to-school transportation	1,225,775	-	867	(1,224,908)
Food services	1,958,301	644,690	1,345,281	31,670
All other pupil services	2,124,297	-	384,139	(1,740,158)
Administration:				
Data processing	83,013	-	-	(83,013)
All other administration	2,675,713	26,639	89,683	(2,559,391)
Plant services	5,406,235	646	20,898	(5,384,691)
Ancillary services	355,534	24,763	63,410	(267,361)
Community services	971,878	-	-	(971,878)
Interest on long-term obligations	648,973	-	-	(648,973)
Other outgo	984,639	-	328,206	(656,433)
Total Governmental Activities	\$ 58,233,037	\$ 721,976	\$ 7,864,872	(49,646,189)
General revenues and subventions:				
				15,648,072
Property taxes, levied for general purposes				1,233,367
Property taxes, levied for debt service				29,191,797
Taxes levied for other specific purposes				275,858
Federal and State aid not restricted to specific purposes				756,400
Interest and investment earnings				3,045,547
Special and extraordinary items				
Miscellaneous				
			Subtotal, General Revenues	50,151,041
			Change in Net Position	504,852
			Net Position - Beginning (As Restated)	(7,965,036)
			Net Position - Ending	\$ (7,460,184)

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

ORCUTT UNION SCHOOL DISTRICT

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

	General Fund	Charter School Fund
ASSETS		
Deposits and investments	\$ 16,691,768	\$ 1,137,315
Receivables	2,346,756	32,999
Due from other funds	404,129	522,653
Stores inventories	15,190	-
Total Assets	\$ 19,457,843	\$ 1,692,967
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable	\$ 2,197,713	\$ 117,984
Due to other funds	523,440	279,742
Unearned revenue	40,185	-
Total Liabilities	2,761,338	397,726
Fund Balances:		
Nonspendable	30,690	-
Restricted	1,058,254	1,295,241
Assigned	14,273,918	-
Unassigned	1,333,643	-
Total Fund Balances	16,696,505	1,295,241
Total Liabilities and Fund Balances	\$ 19,457,843	\$ 1,692,967

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

Building Fund	Capital Facilities Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ 14,788,226	\$ 4,470,520	\$ 3,599,057	\$ 40,686,886
1,790	15,582	278,101	2,675,228
-	-	787	927,569
-	-	63,856	79,046
<u>\$ 14,790,016</u>	<u>\$ 4,486,102</u>	<u>\$ 3,941,801</u>	<u>\$ 44,368,729</u>
-	\$ 4,000	\$ 57,369	\$ 2,377,066
19,501	23,780	81,106	927,569
-	-	16,060	56,245
<u>19,501</u>	<u>27,780</u>	<u>154,535</u>	<u>3,360,880</u>
-	-	63,856	94,546
14,770,515	4,458,322	3,474,880	25,057,212
-	-	248,530	14,522,448
-	-	-	1,333,643
<u>14,770,515</u>	<u>4,458,322</u>	<u>3,787,266</u>	<u>41,007,849</u>
<u>\$ 14,790,016</u>	<u>\$ 4,486,102</u>	<u>\$ 3,941,801</u>	<u>\$ 44,368,729</u>

ORCUTT UNION SCHOOL DISTRICT

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

Total Fund Balance - Governmental Funds **\$ 41,007,849**
**Amounts Reported for Governmental Activities in the Statement of Net
Position are Different Because:**

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

The cost of capital assets is	\$ 53,953,845	
Accumulated depreciation is	<u>(25,253,588)</u>	
Net Capital Assets		28,700,257

In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. On the government-wide financial statements, unmatured interest on long-term obligations is recognized when it is incurred. (138,887)

An internal service fund is used by the District's management to charge the costs of the workers' compensation insurance program to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities. 48,679

Deferred outflows of resources related to pensions represent a consumption of net position in a future period and is not reported in the District's funds. Deferred outflows of resources related to pensions at year end consist of:

Pension contributions subsequent to measurement date	4,163,153	
Net change in proportionate share of net pension liability	1,146,735	
Differences between projected and actual earning on pension plan investments	375,855	
Differences between expected and actual experience in the measurement of the total pension liability	531,713	
Changes of assumptions	<u>8,723,977</u>	
Total Deferred Outflows of Resources Related to Pensions		14,941,433

Deferred inflows of resources related to pensions represent an acquisition of net position that applies to a future period and is not reported in the District's funds. Deferred inflows of resources related to pensions at year end consist of:

Net change in proportionate share of net pension liability	(2,448,598)	
Differences between projected and actual earnings on pension plan investments	(1,025,993)	
Differences between expected and actual experience in the measurement of the total pension liability	(671,916)	
Changes of assumptions	<u>(127,922)</u>	
Total Deferred Inflows of Resources Related to Pensions		(4,274,429)

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

ORCUTT UNION SCHOOL DISTRICT

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

Net pension liability is not due and payable in the current period, and is not reported as a liability in the funds.		\$(49,388,743)
Long-term obligations at year end consist of:		
General obligation bonds payable	\$ 25,635,000	
Premium on issuance	856,400	
Compensated absences (vacations)	251,585	
Net other postemployment benefits (OPEB) liability	11,476,858	
Supplemental early retirement	<u>136,500</u>	
Total Long-Term Obligations		<u>(38,356,343)</u>
Total Net Position (Deficit) - Governmental Activities		<u><u>\$ (7,460,184)</u></u>

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

ORCUTT UNION SCHOOL DISTRICT

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

	General Fund	Charter School Fund
REVENUES		
Local Control Funding Formula	\$ 36,489,474	\$ 6,595,065
Federal sources	1,704,379	707
Other State sources	4,465,834	710,138
Other local sources	3,817,449	364,574
Total Revenues	46,477,136	7,670,484
EXPENDITURES		
Current		
Instruction	28,512,019	4,236,427
Instruction-related activities:		
Supervision of instruction	1,821,975	173,294
Instructional library, media, and technology	983,399	77,287
School site administration	2,617,668	682,143
Pupil services:		
Home-to-school transportation	1,110,041	84,234
Food services	-	-
All other pupil services	1,717,385	287,981
Administration:		
All other administration	1,040,948	1,465,259
Plant services	3,562,608	428,431
Ancillary services	87,661	260,644
Community services	939,336	-
Other outgo	984,639	-
Facility acquisition and construction	411,212	37,956
Debt service		
Principal	-	-
Interest and other	-	-
Total Expenditures	43,788,891	7,733,656
Excess (Deficiency) of Revenues Over Expenditures	2,688,245	(63,172)
Other Financing Sources (Uses)		
Transfers in	50,000	-
Other sources	-	-
Transfers out	(9)	(50,000)
Net Financing Sources (Uses)	49,991	(50,000)
NET CHANGE IN FUND BALANCES	2,738,236	(113,172)
Fund Balance - Beginning	13,958,269	1,408,413
Fund Balance - Ending	\$ 16,696,505	\$ 1,295,241

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

Building Fund	Capital Facilities Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ -	\$ 43,084,539
-	-	1,296,903	3,001,989
-	-	310,462	5,486,434
1,781	792,662	1,874,468	6,850,934
<u>1,781</u>	<u>792,662</u>	<u>3,481,833</u>	<u>58,423,896</u>
-	-	187,352	32,935,798
-	-	4,907	2,000,176
-	-	-	1,060,686
-	-	15,519	3,315,330
-	-	-	1,194,275
-	-	1,921,448	1,921,448
-	-	-	2,005,366
-	32,559	80,290	2,619,056
30,000	-	2,043	4,023,082
-	-	-	348,305
-	-	-	939,336
-	-	-	984,639
104,460	8,909	-	562,537
-	-	705,000	705,000
306,815	-	350,399	657,214
<u>441,275</u>	<u>41,468</u>	<u>3,266,958</u>	<u>55,272,248</u>
<u>(439,494)</u>	<u>751,194</u>	<u>214,875</u>	<u>3,151,648</u>
9	-	-	50,009
15,210,000	-	856,400	16,066,400
-	-	-	(50,009)
<u>15,210,009</u>	<u>-</u>	<u>856,400</u>	<u>16,066,400</u>
14,770,515	751,194	1,071,275	19,218,048
-	3,707,128	2,715,991	21,789,801
<u>\$ 14,770,515</u>	<u>\$ 4,458,322</u>	<u>\$ 3,787,266</u>	<u>\$ 41,007,849</u>

ORCUTT UNION SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2018

Total Net Change in Fund Balances - Governmental Funds **\$ 19,218,048**
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:

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

This is the amount by which depreciation exceeds capital outlays in the period.

Capital outlay	\$ 1,044,159	
Depreciation expense	<u>(1,739,378)</u>	
Net Expense Adjustment		(695,219)

In the Statement of Activities, certain operating expenses, such as compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). Vacation used was more than the amounts earned by \$49,332.

49,332

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

(2,243,434)

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

(343,990)

Proceeds received from issuance of debt is a revenue in the governmental funds, but it increases long-term obligations in the Statement of Net Position and does not affect the Statement of Activities:

General obligation bonds	(15,210,000)
Supplemental early retirement program	(136,500)

Repayment of debt is an expenditure in the governmental funds, but it reduces long-term obligations in the Statement of Net Position and does not affect the Statement of Activities:

General obligation bonds	705,000
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Governmental funds report the effect of premiums, discounts, issuance costs, and the deferred amount on a refunding when the debt is first issued, whereas the amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these related items:

Premium on issuance	(856,400)
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Interest on long-term obligations is recorded as an expenditure in the funds when it is due; however, in the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

8,241

An internal service fund is used by the District's management to charge the costs of the service insurance program to the individual funds. The net revenue of the Internal Service Fund is reported with governmental activities.

9,774

Change in Net Position of Governmental Activities	\$ 504,852
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The accompanying notes are an integral part of these financial statements.

ORCUTT UNION SCHOOL DISTRICT

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

	Governmental Activities - Internal Service Fund
ASSETS	
Current Assets	
Deposits and investments	\$ 1,687,580
Receivables	5,198
Total Current Assets	<u><u>\$ 1,692,778</u></u>
LIABILITIES	
Current Liabilities	
Accounts payable	<u>\$ 1,644,099</u>
Net Position	
Restricted	<u><u>\$ 48,679</u></u>

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

ORCUTT UNION SCHOOL DISTRICT

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

	Governmental Activities - Internal Service Fund
NONOPERATING REVENUES	
Interest income	\$ 9,774
Change in Net Position	9,774
Total Net Position - Beginning	38,905
Total Net Position - Ending	<u>\$ 48,679</u>

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

ORCUTT UNION SCHOOL DISTRICT

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

	Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash paid for employee benefits	\$ 6,751,475
Cash payments to other suppliers of goods or services	(6,705,548)
Net Cash Provided By Operating Activities	<u>45,927</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	<u>9,774</u>
Net Cash Provided by Investing Activities	<u>9,774</u>
Net Increase in Cash and Cash Equivalents	55,701
Cash and Cash Equivalents - Beginning	<u>1,631,879</u>
Cash and Cash Equivalents - Ending	<u>\$ 1,687,580</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income (loss)	\$ -
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Receivables	(2,092)
Accrued liabilities	48,019
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 45,927</u>

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

ORCUTT UNION SCHOOL DISTRICT

**FIDUCIARY FUNDS
STATEMENT OF NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Agency Funds</u>
ASSETS	
Deposits and investments	\$ 53,029
LIABILITIES	
Due to student groups	\$ 53,029

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

ORCUTT UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Orcutt Union School District (the District) was established in 1884 under the laws of the State of California. The District operates under a locally elected five member Board form of government and provides educational services to grades K -12 as mandated by the State and/or Federal agencies. The District operates eight elementary schools, with grades kindergarten through eight, and one charter school, with grades kindergarten through twelve.

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

Other Related Entities

Charter School The District has an approved Charter for Orcutt Academy Charter pursuant to *Education Code* Section 47605. The Orcutt Academy Charter is operated by the District, and its financial activities are presented in the Charter School special revenue fund.

Basis of Presentation - Fund Accounting

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

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

Major Governmental Funds

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

One fund currently defined as special revenue funds in the California State Accounting Manual (CSAM) do not meet the GASB Statement No. 54 special revenue fund definition. Specifically, Fund 14, Deferred Maintenance Fund, and Fund 20, Special Reserve Fund for Postemployment Benefits, is not substantially composed of restricted or committed revenue sources. While these funds are authorized by statute and will remain open for internal reporting purposes, these funds function effectively as extensions of the General Fund, and accordingly have been combined with the General Fund for presentation in these audited financial statements.

ORCUTT UNION SCHOOL DISTRICT

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As a result, the General Fund reflects an increase in fund balance of \$7,064,946.

Charter School Fund The Charter School Fund may be used by authorizing districts to account separately for the activities of district-operated charter schools that would otherwise be reported in the authorizing District's General Fund.

Building Fund The Building 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.

Capital Facilities Fund The Capital Facilities Fund is used primarily to account separately for monies received from fees levied on developers or other agencies as a condition of approval (*Education Code* Sections 17620-17626 and *Government Code* Section 65995 et seq.). Expenditures are restricted to the purposes specified in *Government Code* Sections 65970-65981 or to the items specified in agreements with the developer (*Government Code* Section 66006).

Non-Major Governmental Funds

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

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

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

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

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

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

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

ORCUTT UNION SCHOOL DISTRICT

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Proprietary Funds 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 local education agency, normally on a full cost-recovery basis. Proprietary funds are generally intended to be self-supporting and are classified as enterprise or internal service.

Internal Service Fund Internal Service funds may be used to account for goods or services provided to other funds of the District on a cost-reimbursement basis. The District operates a self-insurance fund that is used to provide medical benefits to its employees.

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

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

Basis of Accounting - Measurement Focus

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

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

Net position should be reported as restricted when constraints placed on net asset 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 result from special revenue funds and the restrictions on their net asset use.

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

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

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

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

Revenues – Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter, to be used to pay liabilities of the current fiscal year. Generally, available is defined as collectible within 45 or 60 days. However, to achieve comparability of reporting among California districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to State-aid apportionments, the California Department of Education has defined available for districts as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year end: State apportionments, interest, certain grants, and other local sources.

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

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

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

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

Cash and Cash Equivalents

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

Investments

Investments held at June 30, 2018, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county and State investment pools are determined by the program sponsor.

Stores Inventories

Inventories consist of expendable food and supplies held for consumption. Inventories are stated at cost, on the first-in, first-out basis. The costs of inventory items are recorded as expenditures in the governmental funds and expenses in the proprietary funds when used.

Capital Assets and Depreciation

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

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

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

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

Interfund Balances

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

Compensated Absences

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

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

Accrued Liabilities and Long-Term Obligations

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

ORCUTT UNION SCHOOL DISTRICT

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

Deferred Outflows/Inflows of Resources

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

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

Pensions

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

Postemployment Benefits Other Than Pensions (OPEB)

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

Fund Balances - Governmental Funds

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

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

ORCUTT UNION SCHOOL DISTRICT

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

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

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

Unassigned - all other spendable amounts.

Spending Order Policy

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

Minimum Fund Balance Policy

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

Net Position

Net position represents the difference between assets and liabilities. Net position net of investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. The government-wide financial statements report \$10,147,810 of restricted net position.

Operating Revenues and Expenses

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

ORCUTT UNION SCHOOL DISTRICT

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Interfund Activity

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

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

Estimates

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

Property Tax

Secured property taxes attach as an enforceable lien on property as of 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 of Santa Barbara bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

Change in Accounting Principles

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

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

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

ORCUTT UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). Specifically, this Statement addresses the following topics:

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

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

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

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

New Accounting Pronouncements

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

ORCUTT UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

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

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

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

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

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

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

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

ORCUTT UNION SCHOOL DISTRICT

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JUNE 30, 2018

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

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

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

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

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

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

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

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

ORCUTT UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

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

Governmental activities	\$ 42,374,466
Fiduciary funds	53,029
Total Deposits and Investments	<u>\$ 42,427,495</u>

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

Cash on hand and in banks	\$ 75,300
Cash in revolving	15,500
Investments	42,336,695
Total Deposits and Investments	<u>\$ 42,427,495</u>

Policies and Practices

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

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

ORCUTT UNION SCHOOL DISTRICT

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

General Authorizations

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

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

Interest Rate Risk

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

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

Investment Type	Reported Amount	Weighted Average Maturity in Days
Santa Barbara County Investment Pool	<u>\$ 42,336,695</u>	448

ORCUTT UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Custodial Credit Risk - Deposits

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

NOTE 3 - FAIR VALUE MEASUREMENTS

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

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

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

Level 3 - Unobservable inputs should be developed using the best information available under the circumstances, which might include the District's own data. The District should adjust that data if 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 Santa Barbara 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 are as follows at June 30, 2018:

<u>Investment Type</u>	<u>Reported Amount</u>	<u>Uncategorized</u>
Santa Barbara County Investment Pool	<u>\$ 42,336,695</u>	<u>\$ 42,336,695</u>

ORCUTT UNION SCHOOL DISTRICT

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

NOTE 4 - RECEIVABLES

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

	General Fund	Charter School Fund	Building Fund	Capital Facilities Fund	Non-Major Governmental Funds	Internal Service Fund	Total
Federal Government							
Categorical aid	\$ 398,926	\$ -	\$ -	\$ -	\$ 193,724	\$ -	\$ 592,650
State Government							
Categorical aid	1,559,423	-	-	-	14,170	-	1,573,593
Lottery	188,658	25,150	-	-	-	-	213,808
Local Government							
Interest	57,157	4,866	1,790	15,582	24,149	5,198	108,742
Other Local Sources	142,592	2,983	-	-	46,058	-	191,633
Total	<u>\$ 2,346,756</u>	<u>\$ 32,999</u>	<u>\$ 1,790</u>	<u>\$ 15,582</u>	<u>\$ 278,101</u>	<u>\$ 5,198</u>	<u>\$ 2,680,426</u>

ORCUTT UNION SCHOOL DISTRICT

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

NOTE 5 - CAPITAL ASSETS

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

	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	\$ 1,878,255	\$ -	\$ -	\$ 1,878,255
Total Capital Assets Not Being Depreciated	<u>1,878,255</u>	<u>-</u>	<u>-</u>	<u>1,878,255</u>
Capital Assets Being Depreciated:				
Buildings and Improvements	42,559,169	46,554	-	42,605,723
Furniture and Equipment	8,483,910	997,605	11,648	9,469,867
Total Capital Assets Being Depreciated	<u>51,043,079</u>	<u>1,044,159</u>	<u>11,648</u>	<u>52,075,590</u>
Total Capital Assets	<u>52,921,334</u>	<u>1,044,159</u>	<u>11,648</u>	<u>53,953,845</u>
Less Accumulated Depreciation:				
Buildings and Improvements	18,401,797	986,303	-	19,388,100
Furniture and Equipment	5,124,061	753,075	11,648	5,865,488
Total Accumulated Depreciation Governmental Activities	<u>23,525,858</u>	<u>1,739,378</u>	<u>11,648</u>	<u>25,253,588</u>
Capital Assets, Net	<u>\$ 29,395,476</u>	<u>\$ (695,219)</u>	<u>\$ -</u>	<u>\$ 28,700,257</u>

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

Governmental Activities	
Plant maintenance	<u>\$ 1,739,378</u>

ORCUTT UNION SCHOOL DISTRICT

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

NOTE 6 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund receivable and payable balances at June 30, 2018, between major and non-major governmental funds, non-major enterprise funds, internal service funds, and fiduciary funds are as follows:

Due To	Due From					Total
	General Fund	Charter Fund	Building Fund	Capital Facilities Fund	Non-Major Governmental Funds	
General Fund	\$ -	\$ 279,742	\$ 19,501	\$ 23,780	\$ 81,106	\$ 404,129
Charter Fund	522,653	-	-	-	-	522,653
Funds	787	-	-	-	-	787
Total	<u>\$ 523,440</u>	<u>\$ 279,742</u>	<u>\$ 19,501</u>	<u>\$ 23,780</u>	<u>\$ 81,106</u>	<u>\$ 927,569</u>

The balance of \$522,653 is due to the Charter School Fund from the General Fund for charter in lieu of property taxes and LCFF.

The balance of \$787 is due to the Cafeteria Non-Major Governmental Fund from the General Fund for expenses.

The balance of \$279,742 is due to the General Fund from the Charter School Fund for charter school fees, transportation costs, and retirement transfer.

The balance of \$19,501 is due to the General Fund from the Building Fund for bond expenditures.

A balance of \$72,887 is due to the General Fund from the Cafeteria Non-Major Governmental Fund for indirect costs.

The balance of \$23,780 is due to the General Fund from the Capital Facilities Fund for administrative fee.

A balance of \$8,219 is due to the General Fund from the Child Development Non-Major Governmental Fund for indirect costs.

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

ORCUTT UNION SCHOOL DISTRICT

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

Operating Transfers

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

Transfer To	Transfer From		
	General Fund	Charter School Fund	Total
General Fund	\$ -	\$ 50,000	\$ 50,000
Building Fund	9	-	9
Total	<u>\$ 9</u>	<u>\$ 50,000</u>	<u>\$ 50,009</u>

The Charter School Fund transferred to the General Fund for postretirement benefits.	\$ 50,000
The General Fund transferred to the Building Fund to cover negative interest amount.	9
Total	<u>\$ 50,009</u>

Interfund transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 7 - ACCOUNTS PAYABLE

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

	General Fund	Charter School Fund	Capital Facilities Fund	Non-Major Governmental Funds	Internal Service Fund	Total
Vendor payables	\$ 1,820,201	\$ 55,192	\$ 4,000	\$ 52,396	\$ -	\$ 1,931,789
State apportionment	341,248	59,326	-	-	-	400,574
Salaries and benefits	23,206	3,466	-	4,973	1,644,099	1,675,744
Construction	13,058	-	-	-	-	13,058
Total	<u>\$ 2,197,713</u>	<u>\$ 117,984</u>	<u>\$ 4,000</u>	<u>\$ 57,369</u>	<u>\$ 1,644,099</u>	<u>\$ 4,021,165</u>

ORCUTT UNION SCHOOL DISTRICT

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

NOTE 8 - UNEARNED REVENUE

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

	General Fund	Non-Major Governmental Funds	Total
Federal financial assistance	\$ 40,185	\$ -	\$ 40,185
State categorical aid	-	16,060	16,060
Total	<u>\$ 40,185</u>	<u>\$ 16,060</u>	<u>\$ 56,245</u>

NOTE 9 - LONG-TERM OBLIGATIONS

Summary

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

	(As restated)			Balance	Due in
	Balance July 1, 2017	Additions	Deductions	June 30, 2018	One Year
General obligation bonds	\$ 11,130,000	\$ 15,210,000	\$ 705,000	\$ 25,635,000	\$ 1,775,000
Premium on issuance	-	856,400	-	856,400	-
Compensated absences	300,917	-	49,332	251,585	-
Supplemental Early Retirement	-	136,500	-	136,500	136,500
Net other postemployment benefits (OPEB) liability	11,132,868	395,205	51,215	11,476,858	-
	<u>\$ 22,563,785</u>	<u>\$ 16,598,105</u>	<u>\$ 805,547</u>	<u>\$ 38,356,343</u>	<u>\$ 1,911,500</u>

Payments on the General Obligation Bonds are made from the Bond Interest and Redemption Fund. Payments for Compensated absences are typically liquidated in the fund in which the employee worked. Payments for net other postemployment benefits (OPEB) liability are made from the General Fund and the fund in which the employee worked.

ORCUTT UNION SCHOOL DISTRICT

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

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds			Bonds
				Outstanding July 1, 2017	Issued	Redeemed	Outstanding June 30, 2018
2012	2/1/2031	2.0%-4.0%	\$ 4,150,000	\$ 3,225,000	\$ -	\$ 195,000	\$ 3,030,000
2012	8/1/2029	2.0%-3.5%	1,525,000	1,195,000	-	85,000	1,110,000
2015	8/1/2031	3.25%	7,415,000	6,710,000	-	425,000	6,285,000
2018	8/1/2047	3.25%-5.0	15,210,000	-	15,210,000	-	15,210,000
				<u>\$ 11,130,000</u>	<u>\$ 15,210,000</u>	<u>\$ 705,000</u>	<u>\$ 25,635,000</u>

2012 General Obligations Bond Series A

The bonds mature through 2031 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2019	\$ 200,000	\$ 97,575	\$ 297,575
2020	200,000	93,575	293,575
2021	210,000	89,075	299,075
2022	215,000	83,825	298,825
2023	215,000	77,912	292,912
2024-2028	1,180,000	285,394	1,465,394
2029-2031	810,000	65,600	875,600
Total	<u>\$ 3,030,000</u>	<u>\$ 792,956</u>	<u>\$ 3,822,956</u>

2012 General Obligations Bond Series B

The bonds mature through 2030 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2019	\$ 85,000	\$ 30,750	\$ 115,750
2020	90,000	29,106	119,106
2021	100,000	27,081	127,081
2022	100,000	24,706	124,706
2023	100,000	22,081	122,081
2024-2028	520,000	64,322	584,322
2029-2030	115,000	2,013	117,013
Total	<u>\$ 1,110,000</u>	<u>\$ 200,059</u>	<u>\$ 1,310,059</u>

ORCUTT UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

2015 Refunding General Obligations Bond

The bonds mature through 2032 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2019	\$ 440,000	\$ 200,769	\$ 640,769
2020	445,000	186,387	631,387
2021	455,000	171,844	626,844
2022	475,000	156,894	631,894
2023	495,000	141,294	636,294
2024-2028	2,760,000	450,369	3,210,369
2029-2032	1,215,000	51,837	1,266,837
Total	<u>\$ 6,285,000</u>	<u>\$ 1,359,394</u>	<u>\$ 7,644,394</u>

2016 Refunding General Obligations Bond

The bonds mature through 2048 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2019	\$ 1,050,000	\$ 694,450	\$ 1,744,450
2020	750,000	583,638	1,333,638
2021	-	546,137	546,137
2022	-	546,137	546,137
2023	10,000	546,137	556,137
2024-2028	440,000	2,697,938	3,137,938
2029-2033	1,310,000	2,508,188	3,818,188
2034-2038	2,555,000	2,087,575	4,642,575
2039-2043	4,215,000	1,428,625	5,643,625
2044-2048	4,880,000	502,000	5,382,000
	<u>\$15,210,000</u>	<u>\$12,140,825</u>	<u>\$ 27,350,825</u>

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2018, amounted to \$251,585.

Supplemental Early Retirement Plan

The District offered an early retirement incentive of \$25,000 to all retirees if at least 15 bargaining unit members elect to retire. The retirees could either receive the monies in one lump sum or in two payments. At the end of June 30, 2018, nine employees chose to receive the incentive in two payments with a total balance outstanding of \$136,500.

ORCUTT UNION SCHOOL DISTRICT

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

Net Other Postemployment Benefits (OPEB) Liability

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

<u>OPEB Plan</u>	<u>Net OPEB Liability</u>	<u>OPEB Expense</u>
District Plan	\$ 11,159,578	\$ 395,205
Medicare Premium Payment (MPP) Program	317,280	(51,215)
Total	<u>\$ 11,476,858</u>	<u>\$ 343,990</u>

The details of each plan are as follows:

District Plan

Plan Administration

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

Plan Membership

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

Inactive employees or beneficiaries currently receiving benefits payments	30
Active employees	292
	<u>322</u>

Benefits Provided

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

Contributions

The contribution requirements of the Plan members and the District are established and may be amended by the District, Orcutt Educators Association, the local California Service Employees Association (CSEA), and unrepresented groups. The benefit payment is based on projected pay-as-you-go financing requirements as determined annually through the agreements with the District, Orcutt Educators Association, CSEA, and the unrepresented groups. For fiscal year 2017-2018, the District paid \$637,429 in benefits.

ORCUTT UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Total OPEB Liability of the District

The District's total OPEB liability of \$11,159,578 was measured as of June 30, 2018, and the total OPEB liability used to calculate the total OPEB liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions

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

Inflation	2.75 percent
Salary increases	2.75 percent, average, including inflation
Discount rate	3.8 percent
Health care cost trend rates	4 percent for 2018

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

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

The actual assumptions used in the June 30, 2018 valuation were based on the results of an actual experience study for the period July 1, 2017 to June 30, 2018.

	Total OPEB Liability
Balance at June 30, 2017	\$ 10,764,373
Service cost	624,166
Interest	408,468
Benefit payments	(637,429)
Net change in total OPEB liability	395,205
Balance at June 30, 2018	<u>\$ 11,159,578</u>

ORCUTT UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

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

<u>Discount Rate</u>	<u>Total OPEB Liability</u>
1% decrease (2.8%)	\$ 11,730,168
Current discount rate (3.8%)	11,159,578
1% increase (4.8%)	10,604,575

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

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

<u>Healthcare Cost Trend Rates</u>	<u>Net OPEB Liability</u>
1% decrease (3.0%)	\$ 10,750,515
Current healthcare cost trend rate (4.0%)	11,159,578
1% increase (5.0%)	11,455,451

Medicare Premium Payment (MPP) Program

Plan Description

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

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

Benefits Provided

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

ORCUTT UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

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

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

At June 30, 2018, the District reported a liability of \$317,280 for its proportionate share of the net OPEB liability for the MPP Program. The net OPEB liability was measured as of June 30, 2016, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB Plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2017 and June 30, 2016, was 0.0754 percent and 0.0787, respectively, resulting in a net decrease in the proportionate share of 0.0033 percent.

For the year ended June 30, 2018, the District recognized OPEB expense of \$(51,215).

Actuarial Methods and Assumptions

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

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

ORCUTT UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

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

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

Discount Rate

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

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

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

Discount Rate	Net OPEB Liability
1% decrease (2.58%)	\$ 351,251
Current discount rate (3.58%)	317,280
1% increase (4.58%)	284,236

ORCUTT UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

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

<u>Medicare Costs Trend Rate</u>	<u>Net OPEB Liability</u>
1% decrease (2.7% Part A and 3.1% Part B)	\$ 286,711
Current Medicare costs trend rate (3.7% Part A and 4.1% Part B)	317,280
1% increase (4.7% Part A and 5.1% Part B)	347,543

ORCUTT UNION SCHOOL DISTRICT

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

NOTE 10 - FUND BALANCES

Fund balances composed of the following elements:

	General Fund	Charter School Fund	Building Fund	Capital Facilities Fund	Non-Major Governmental Funds	Total
Nonspendable						
Revolving cash	\$ 15,500	\$ -	\$ -	\$ -	\$ -	\$ 15,500
Stores inventories	15,190	-	-	-	63,856	79,046
Total Nonspendable	30,690	-	-	-	63,856	94,546
Restricted						
Legally restricted programs	1,058,254	1,295,241	-	-	3,474,880	5,828,375
Capital projects	-	-	14,770,515	4,458,322	-	19,228,837
Total Restricted	1,058,254	1,295,241	14,770,515	4,458,322	3,474,880	25,057,212
Assigned						
Capital projects	-	-	-	-	248,530	248,530
Other assignments	14,273,918	-	-	-	-	14,273,918
Total Assigned	14,273,918	-	-	-	248,530	14,522,448
Unassigned						
Reserve for economic uncertainties	1,333,643	-	-	-	-	1,333,643
Total	\$ 16,696,505	\$ 1,295,241	\$ 14,770,515	\$ 4,458,322	\$ 3,787,266	\$ 41,007,849

NOTE 11 - RISK MANAGEMENT

Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2018, the District contracted with SISCII for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

ORCUTT UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Workers' Compensation

For fiscal year 2018, the District participated in the SIPE, an insurance purchasing pool. The intent of the SIPE is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the SIPE. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all districts in the name of SIPE. Each participant pays its workers' compensation premium based on its individual rate.

Employee Medical Benefits

The District has contracted with the SISCIH to provide employee health benefits. Rates are set through an annual calculation process. The District pays a monthly contribution, which is placed in a common fund from which claim payments are made for all participating districts. Claims are paid for all participants regardless of claims flow. The Board of Directors has a right to return monies to a district subsequent to the settlement of all expenses and claims if a district withdraws from the pool.

NOTE 12 - EMPLOYEE RETIREMENT SYSTEMS

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

For the fiscal year ended June 30, 2018, the District reported net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense for each of the above plans as follows:

<u>Pension Plan</u>	<u>Collective Net Pension Liability</u>	<u>Collective Deferred Outflows of Resources</u>	<u>Collective Deferred Inflows of Resources</u>	<u>Collective Pension Expense</u>
CalSTRS	\$ 38,523,730	\$ 11,581,798	\$ 3,879,424	\$ 3,922,150
CalPERS	10,865,013	3,359,635	395,005	2,484,437
Total	<u>\$ 49,388,743</u>	<u>\$ 14,941,433</u>	<u>\$ 4,274,429</u>	<u>\$ 6,406,587</u>

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

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

ORCUTT UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

Benefits Provided

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

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

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

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

	STRP Defined Benefit Program	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	On or before December 31, 2012	On or after January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	10.25%	9.205%
Required employer contribution rate	14.43%	14.43%
Required state contribution rate	9.328%	9.328%

ORCUTT UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Contributions

Required member, District, and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2018, are presented above and the District's total contributions were \$3,219,513.

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:

Total net pension liability, including State share:

District's proportionate share of net pension liability	\$ 38,523,730
State's proportionate share of the net pension liability associated with the District	<u>22,790,313</u>
Total	<u><u>\$ 61,314,043</u></u>

The net pension liability was measured as of June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. The District's proportionate share for the measurement period June 30, 2017 and June 30, 2016, was 0.0417 percent and 0.0443 percent, respectively, resulting in a net decrease in the proportionate share of 0.0026 percent.

ORCUTT UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

For the year ended June 30, 2018, the District recognized pension expense of \$3,922,150. In addition, the District recognized pension expense and revenue of \$2,294,064 for support provided by the State. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 3,219,513	\$ -
Net change in proportionate share of net pension liability	1,082,850	2,181,515
Differences between projected and actual earnings on pension plan investments	-	1,025,993
Differences between expected and actual experience in the measurement of the total pension liability	142,464	671,916
Changes of assumptions	7,136,971	-
Total	<u>\$ 11,581,798</u>	<u>\$ 3,879,424</u>

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

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ (852,946)
2020	645,429
2021	93,066
2022	(911,542)
Total	<u>\$ (1,025,993)</u>

ORCUTT UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ 954,745
2020	954,745
2021	954,745
2022	954,749
2023	762,141
Thereafter	927,729
Total	<u>\$ 5,508,854</u>

Actuarial Methods and Assumptions

Total pension liability for STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total pension liability to June 30, 2017. The financial reporting actuarial valuation as of June 30, 2016, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2016
Measurement date	June 30, 2017
Experience study	July 1, 2010 through June 30, 2015
Actuarial cost method	Entry age normal
Discount rate	7.10%
Investment rate of return	7.10%
Consumer price inflation	2.75%
Wage growth	3.50%

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

ORCUTT UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

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

Discount Rate

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

ORCUTT UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% decrease (6.10%)	\$ 56,565,065
Current discount rate (7.10%)	38,523,730
1% increase (8.10%)	23,881,963

California Public Employees Retirement System (CalPERS)

Plan Description

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

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

Benefits Provided

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

ORCUTT UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

	School Employer Pool (CalPERS)	
	On or before December 31, 2012	On or after January 1, 2013
Hire date		
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.00%	6.50%
Required employer contribution rate	15.531%	15.531%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2018, are presented above and the total District contributions were \$943,640.

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

As of June 30, 2018, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$10,865,013. The net pension liability was measured as of June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2017 and June 30, 2016, was 0.0455 percent and 0.0477 percent, respectively, resulting in a net decrease in the proportionate share of 0.0022 percent.

ORCUTT UNION SCHOOL DISTRICT

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

For the year ended June 30, 2018, the District recognized pension expense of \$2,484,437. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 943,640	\$ -
Net change in proportionate share of net pension liability	63,885	267,083
Differences between projected and actual earnings on pension plan investments	375,855	-
Differences between expected and actual experience in the measurement of the total pension liability	389,249	-
Changes of assumptions	1,587,006	127,922
Total	<u>\$ 3,359,635</u>	<u>\$ 395,005</u>

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

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ (10,184)
2020	433,656
2021	158,202
2022	(205,819)
Total	<u>\$ 375,855</u>

ORCUTT UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ 605,131
2020	574,030
2021	465,974
Total	<u>\$ 1,645,135</u>

Actuarial Methods and Assumptions

Total pension liability for the SEP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total pension liability to June 30, 2017. The financial reporting actuarial valuation as of June 30, 2016, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2016
Measurement date	June 30, 2017
Experience study	July 1, 1997 through June 30, 2011
Actuarial cost method	Entry age normal
Discount rate	7.15%
Investment rate of return	7.15%
Consumer price inflation	2.75%
Wage growth	Varies by entry age and service

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

ORCUTT UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global equity	47%	5.38%
Global debt securities	19%	2.27%
Inflation assets	6%	1.39%
Private equity	12%	6.63%
Real estate	11%	5.21%
Infrastructure and Forestland	3%	5.36%
Liquidity	2%	-0.90%

Discount Rate

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

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

<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% decrease (6.15%)	\$ 15,985,917
Current discount rate (7.15%)	10,865,013
1% increase (8.15%)	6,616,796

ORCUTT UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of \$1,853,345 (9.328 percent of annual payroll). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

Grants

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

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 of the overall financial position of the District at June 30, 2018.

NOTE 14 - PARTICIPATION IN JOINT POWERS AUTHORITIES

The Orcutt Union School District participates in three joint ventures under joint powers agreements (JPAs): the Self-Insurance Program for Employees, the Self-Insured Schools of California II, and the Self-Insured Schools of California III. The relationships between the Orcutt Union School District and the JPAs are such that none of the JPAs are a component unit of the Orcutt Union School District for financial reporting purposes.

The JPAs are independently accountable for their fiscal matters. The insurance groups maintain their own accounting records. Budgets are not subject to any approval other than of the respective governing boards. Member districts share surpluses and deficits proportionately to their participation in the JPA.

ORCUTT UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Self-Insurance Program for Employees (SIPE)

SIPE was established to provide the services and other items necessary and appropriate for the development, operation, and maintenance of a self-insurance system for workers' compensation claims against the public educational agencies who are members thereof. The participants consist of the Office of the County Superintendent of Schools, school districts, and a community college. Each participant may appoint one representative to the governing board, the governing board is responsible for establishing premium rates and making budgeting decisions.

Self-Insured School of California II (SISC II)

SISC II arranges for and provides property and liability insurance for its member school districts. The Orcutt Union School District pays a premium commensurate with the level of coverage requested.

Self-Insured School of California III (SISC III)

SIPE III arranges for and provides health and welfare insurance for its member school districts. The Orcutt Union School District pays a premium commensurate with the level of health and welfare insurance provided.

The District made payments of \$578,288, \$321,596, and \$4,987,363 to SIPE, SISC II, and SISC III, respectively.

NOTE 15 - RESTATEMENT OF PRIOR YEAR NET POSITION

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

Statement of Net Position

Net Position - Beginning	\$ (424,780)
Inclusion of net OPEB liability from the adoption of GASB Statement No. 75.	(7,540,256)
Net Position - Beginning as Restated	<u>\$ (7,965,036)</u>

REQUIRED SUPPLEMENTARY INFORMATION

ORCUTT UNION SCHOOL DISTRICT

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

	Budgeted Amounts		Actual (GAAP Basis)	Variances -
	Original	Final		Positive
				(Negative)
			Final	
			to Actual	
REVENUES				
Local Control Funding Formula	\$ 36,068,954	\$ 36,406,750	\$ 36,489,474	\$ 82,724
Federal sources	1,509,986	1,720,185	1,704,379	(15,806)
Other State sources	4,824,293	4,520,559	4,465,834	(54,725)
Other local sources	1,210,289	3,466,490	3,817,449	350,959
Total Revenues ¹	43,613,522	46,113,984	46,477,136	363,152
EXPENDITURES				
Current				
Certificated salaries	19,750,929	20,103,356	20,189,801	(86,445)
Classified salaries	6,677,712	6,574,192	6,644,445	(70,253)
Employee benefits	11,002,383	10,903,256	11,094,334	(191,078)
Books and supplies	1,404,476	2,037,477	1,667,046	370,431
Services and operating expenditures	3,772,268	4,938,154	3,003,594	1,934,560
Other outgo	(69,040)	(76,548)	904,349	(980,897)
Capital outlay	273,600	286,228	285,322	906
Total Expenditures ¹	42,812,328	44,766,115	43,788,891	977,224
Excess (Deficiency) of Revenues Over Expenditures	801,194	1,347,869	2,688,245	1,340,376
Other Financing Sources (Uses)				
Transfers in	6,000	20,500	50,000	29,500
Transfers out	(557,633)	(754,984)	(9)	754,975
Net Financing Sources (Uses)	(551,633)	(734,484)	49,991	784,475
NET CHANGE IN FUND BALANCE	249,561	613,385	2,738,236	2,124,851
Fund Balance - Beginning	13,958,269	13,958,269	13,958,269	-
Fund Balance - Ending	\$ 14,207,830	\$ 14,571,654	\$ 16,696,505	\$ 2,124,851

¹ Due to the consolidation of Fund 14, Deferred Maintenance Fund and Fund 20, Special Reserve Fund for Postemployment Benefits for reporting purposes into the General Fund, additional revenues and expenditures pertaining to these other funds are included in the Actual (GAAP Basis) revenues and expenditures, however are not included in the original and final General Fund budgets.

See accompanying note to required supplementary information.

ORCUTT UNION SCHOOL DISTRICT

**CHARTER SCHOOL SPECIAL REVENUE FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2018**

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative)
	Original	Final		Final to Actual
	REVENUES			
Local Control Funding Formula	\$ 6,646,637	\$ 6,616,342	\$ 6,595,065	\$ (21,277)
Federal sources	3,145	3,145	707	(2,438)
Other State sources	424,000	738,230	710,138	(28,092)
Other local sources	28,166	303,609	364,574	60,965
Total Revenues	7,101,948	7,661,326	7,670,484	9,158
EXPENDITURES				
Current				
Certificated salaries	3,088,324	3,152,900	3,148,373	(4,527)
Classified salaries	517,764	512,139	505,370	(6,769)
Employee benefits	1,447,643	1,459,301	1,508,015	48,714
Books and supplies	175,860	459,742	358,378	(101,364)
Services and operating expenditures	1,839,644	2,328,730	2,205,115	(123,615)
Capital outlay	-	8,500	8,405	(95)
Total Expenditures	7,069,235	7,921,312	7,733,656	(187,656)
Excess (Deficiency) of Revenues Over Expenditures	32,713	(259,986)	(63,172)	196,814
Other Financing Sources (Uses)				
Transfers out	(22,401)	-	(50,000)	(50,000)
NET CHANGE IN FUND BALANCE	10,312	(259,986)	(113,172)	146,814
Fund Balance - Beginning	1,408,413	1,408,413	1,408,413	-
Fund Balance - Ending	\$ 1,418,725	\$ 1,148,427	\$ 1,295,241	\$ 146,814

See accompanying note to required supplementary information.

ORCUTT UNION SCHOOL DISTRICT

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

	<u>2018</u>
Total OPEB Liability	
Service cost	\$ 624,166
Interest	408,468
Benefit payments	<u>(637,429)</u>
Net change in total OPEB liability	395,205
Total OPEB liability - beginning	<u>10,764,373</u>
Total OPEB liability - ending	<u><u>\$ 11,159,578</u></u>

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

See accompanying note to required supplementary information.

ORCUTT UNION SCHOOL DISTRICT

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

Year ended June 30,	<u>2018</u>
District's proportion of the net OPEB liability	<u>0.0754%</u>
District's proportionate share of the net OPEB liability	\$ 317,280
District's covered-employee payroll	<u>N/A¹</u>
District's proportionate share of the net OPEB liability as a percentage of it's covered-employee payroll	<u>N/A¹</u>
Plan fiduciary net position as a percentage of the total OPEB liability	<u>0.01%</u>

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

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

See accompanying note to required supplementary information.

ORCUTT UNION SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY FOR THE YEAR ENDED JUNE 30, 2018

	<u>2018</u>	<u>2017</u>	<u>2016</u>
CalSTRS			
District's proportion of the net pension liability (asset)	<u>0.0417%</u>	<u>0.0443%</u>	<u>0.0452%</u>
District's proportionate share of the net pension liability (asset)	<u>\$ 38,523,730</u>	<u>\$ 35,807,180</u>	<u>\$ 30,402,486</u>
State's proportionate share of the net pension liability (asset) associated with the District	<u>22,790,313</u>	<u>20,384,389</u>	<u>16,079,564</u>
Total	<u>\$ 61,314,043</u>	<u>\$ 56,191,569</u>	<u>\$ 46,482,050</u>
District's covered-employee payroll	<u>\$ 23,242,234</u>	<u>\$ 20,829,795</u>	<u>\$ 20,005,788</u>
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	<u>165.75%</u>	<u>171.90%</u>	<u>151.97%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>69%</u>	<u>70%</u>	<u>74%</u>
CalPERS			
District's proportion of the net pension liability (asset)	<u>0.0455%</u>	<u>0.0477%</u>	<u>0.0473%</u>
District's proportionate share of the net pension liability (asset)	<u>\$ 10,865,013</u>	<u>\$ 9,420,506</u>	<u>\$ 6,971,325</u>
District's covered-employee payroll	<u>\$ 9,789,446</u>	<u>\$ 5,609,300</u>	<u>\$ 5,023,476</u>
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	<u>110.99%</u>	<u>167.94%</u>	<u>138.77%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>72%</u>	<u>74%</u>	<u>79%</u>

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

See accompanying note to required supplementary information.

2015

0.0426%

\$ 24,868,700

15,016,795

\$ 39,885,495

\$ 23,953,830

103.82%

77%

0.0463%

\$ 5,260,178

\$ 5,942,471

88.52%

83%

ORCUTT UNION SCHOOL DISTRICT

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>
CalSTRS			
Contractually required contribution	\$ 3,219,513	\$ 2,923,873	\$ 2,235,037
Contributions in relation to the contractually required contribution	<u>(3,219,513)</u>	<u>(2,923,873)</u>	<u>(2,235,037)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
 District's covered-employee payroll	 <u>\$ 22,311,247</u>	 <u>\$ 23,242,234</u>	 <u>\$ 20,829,795</u>
 Contributions as a percentage of covered-employee payroll	 <u>14.43%</u>	 <u>12.58%</u>	 <u>10.73%</u>
CalPERS			
Contractually required contribution	\$ 943,640	\$ 1,359,754	\$ 664,702
Contributions in relation to the contractually required contribution	<u>(943,640)</u>	<u>(1,359,754)</u>	<u>(664,702)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
 District's covered-employee payroll	 <u>\$ 6,075,848</u>	 <u>\$ 9,789,446</u>	 <u>\$ 5,609,300</u>
 Contributions as a percentage of covered-employee payroll	 <u>15.53%</u>	 <u>13.89%</u>	 <u>11.85%</u>

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

See accompanying note to required supplementary information.

2015

\$ 1,776,514

(1,776,514)

\$ -

\$ 20,005,788

8.88%

\$ 591,263

(591,263)

\$ -

\$ 5,023,476

11.77%

ORCUTT UNION SCHOOL DISTRICT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2018

NOTE 1 - PURPOSE OF SCHEDULES

Budgetary Comparison Schedules

The District employs budget control by object codes and by individual appropriation accounts. Budgets are prepared on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United State of America as prescribed by the Governmental Accounting Standards Board and provisions of the California *Education Code*. The governing board is required to hold a public hearing and adopt an operating budget no later than July 1 of each year. The adopted budget is subject to amendment throughout the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption with the legal restriction that expenditures cannot exceed appropriations by major object account.

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for.

These schedules present information for the original and final budgets and actual results of operations, as well as the variances from the final budget to actual results of operations.

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

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

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

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

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

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

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

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

ORCUTT UNION SCHOOL DISTRICT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2018

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

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

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

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

Schedule of District Contributions

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

SUPPLEMENTARY INFORMATION

ORCUTT UNION SCHOOL DISTRICT

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

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	Amount Passed Through to Subrecipient
U.S. DEPARTMENT OF EDUCATION				
Passed through California Department of Education (CDE):				
Title II, Part A - Supporting effective instruction	84.367	14341	\$ 97,693	\$ -
Title III - Limited English Proficient (LEP) Student Program	84.365	14346	16,167	-
Title I Part A, Basic Grants Low-Income and Neglected	84.010	14329	575,166	-
Title I Part G: Advanced Placement (AP) Test Fee Reimbursement Program	84.330B	14831	707	-
Passed through Santa Barbara County Special Education Local Plan Area:				
Special Education Cluster				
Basic Local Assistance Entitlement, Part B, Section 611	84.027	13379	804,666	-
Preschool Grants, Part B, Section 619 (Age 3-4-5)	84.173	13430	38,029	-
Preschool Local Entitlement, Part B, Section 611 (Age 3-4-5)	84.027A	13682	164,182	-
Total Special Education Cluster			<u>1,006,877</u>	<u>-</u>
Total U.S. Department of Education			<u>1,696,610</u>	<u>-</u>
U.S. DEPARTMENT OF AGRICULTURE				
Passed through California Department of Education (CDE):				
Child Nutrition Cluster:				
Especially Needy Breakfast	10.553	13526	215,376	-
National School Lunch Program	10.555	13523	867,969	-
Food Distribution	10.555	13524	177,235	-
Total U.S. Department of Agriculture			<u>1,296,903</u>	<u>-</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Passed through California Department of Health Services:				
Medi-Cal Billing Option	93.778	10013	19,462	-
Total U.S. Department of Health and Human Services			<u>19,462</u>	<u>-</u>
Total Expenditures of Federal Awards			<u>\$ 3,012,975</u>	<u>\$ -</u>

See accompanying note to supplementary information.

ORCUTT UNION SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2018

ORGANIZATION

The Orcutt Union School District was established in 1884 and consists of an area comprising approximately 69.69 square miles. The District operates eight elementary schools, with grades kindergarten through eight, and one charter school, with grades kindergarten through twelve.

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Dr. James Peterson	President	2018
Ms. Lisa Morinini	Clerk/Secretary	2020
Mrs. Liz Phillips	Member	2020
Mr. Rob Buchanan	Member	2018
Mr. Robert Hatch	Member	2018

ADMINISTRATION

<u>NAME</u>	<u>TITLE</u>
Dr. Deborah Blow	Superintendent
Mr. Walter Con	Assistant Superintendent, Business Services
Ms. Susan Salucci	Assistant Superintendent, Human Resources
Ms. Holly Edds, Ed.D.	Assistant Superintendent, Educational Services
Mr. Kirby Fell	Chief Technology Officer

See accompanying note to supplementary information.

ORCUTT UNION SCHOOL DISTRICT

**SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2018**

	Final Report	
	Second Period Report	Annual Report
Orcutt Union School District		
Regular ADA		
Transitional kindergarten through third	1,761.61	1,764.48
Fourth through sixth	1,414.17	1,412.80
Seventh and eighth	1,107.20	1,102.22
Total Regular ADA	<u>4,282.98</u>	<u>4,279.50</u>
Extended Year Special Education		
Transitional kindergarten through third	2.32	2.32
Fourth through sixth	2.34	2.34
Seventh and eighth	0.96	0.96
Total Extended Year Special Education	<u>5.62</u>	<u>5.62</u>
Total ADA	<u><u>4,288.60</u></u>	<u><u>4,285.12</u></u>
Orcutt Academy Charter		
Regular ADA		
Transitional kindergarten through third	81.33	82.10
Fourth through sixth	58.39	58.62
Seventh and eighth	49.96	50.70
Ninth through twelfth	563.02	562.52
Total Regular ADA	<u>752.70</u>	<u>753.94</u>
Classroom based ADA		
Transitional kindergarten through third	55.73	55.70
Fourth through sixth	40.20	40.22
Seventh and eighth	26.65	26.63
Ninth through twelfth	561.58	560.28
Total Classroom Based ADA	<u>684.16</u>	<u>682.83</u>
Extended Year Special Education		
Transitional kindergarten through third	-	-
Fourth through sixth	-	-
Seventh and eighth	-	-
Ninth through twelfth	0.25	0.25
Total Extended Year Special Education	<u>0.25</u>	<u>0.25</u>
Total ADA	<u><u>1,437.11</u></u>	<u><u>1,437.02</u></u>

Orcutt Academy Charter High School operated a non-classroom based independent study instruction program. Determination of funding for non-classroom based independent study is not required due to the total amount of non-classroom based ADA is below 20 percent of total Charter ADA.

See accompanying note to supplementary information.

ORCUTT UNION SCHOOL DISTRICT

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

Orcutt Union School District

Grade Level	1986-87 Minutes Requirement	2017-18 Actual Minutes	Number of Days		Status
			Traditional Calendar	Multitrack Calendar	
Kindergarten	36,000	36,034	180	N/A	Complied
Grades 1 - 3	50,400				
Grade 1		51,146	180	N/A	Complied
Grade 2		51,180	180	N/A	Complied
Grade 3		50,500	180	N/A	Complied
Grades 4 - 6	54,000				
Grade 4		54,490	180	N/A	Complied
Grade 5		54,560	180	N/A	Complied
Grade 6		54,560	180	N/A	Complied
Grades 7 - 8	54,000				
Grade 7		54,890	180	N/A	Complied
Grade 8		54,890	180	N/A	Complied

Orcutt Academy Charter

Grade Level	1986-87 Minutes Requirement	2017-18 Actual Minutes	Number of Days		Status
			Traditional Calendar	Multitrack Calendar	
Kindergarten	36,000	55,560	180	N/A	Complied
Grades 1 - 3	50,400				
Grade 1		55,560	180	N/A	Complied
Grade 2		55,560	180	N/A	Complied
Grade 3		55,920	180	N/A	Complied
Grades 4 - 6	54,000				
Grade 4		55,920	180	N/A	Complied
Grade 5		55,920	180	N/A	Complied
Grade 6		55,920	180	N/A	Complied
Grades 7 - 8	54,000				
Grade 7		55,920	180	N/A	Complied
Grade 8		58,860	180	N/A	Complied
Grades 9 - 12	64,800				
Grade 9		64,960	180	N/A	Complied
Grade 10		64,960	180	N/A	Complied
Grade 11		64,960	180	N/A	Complied
Grade 12		64,960	180	N/A	Complied

See accompanying note to supplementary information.

ORCUTT UNION SCHOOL DISTRICT

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

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

	<u>Cafeteria Fund</u>
FUND BALANCE	
Balance, June 30, 2018, Unaudited Actuals	\$ 1,435,758
Increase in:	
Accounts receivable	<u>50,772</u>
Balance, June 30, 2018, Audited Financial Statements	<u>\$ 1,486,530</u>

See accompanying note to supplementary information.

ORCUTT UNION SCHOOL DISTRICT

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

	(Budget) 2019 ¹	2018	2017	2016
GENERAL FUND ³				
Revenues	\$ 47,470,396	\$ 46,110,908	\$ 44,670,145	\$ 44,782,067
Other sources	-	-	8,187	575,269
Total Revenues and Other Sources	47,470,396	46,110,908	44,678,332	45,357,336
Expenditures	47,151,625	43,654,770	43,128,290	42,535,438
Other uses and transfers out	743,472	754,984	656,135	595,290
Total Expenditures and Other Uses	47,895,097	44,409,754	43,784,425	43,130,728
INCREASE (DECREASE) IN FUND BALANCE	\$ (424,701)	\$ 1,701,154	\$ 893,907	\$ 2,226,608
ENDING FUND BALANCE	\$ 9,206,858	\$ 9,631,559	\$ 7,930,405	\$ 7,036,498
AVAILABLE RESERVES ²	\$ 1,436,853	\$ 1,333,643	\$ 1,313,533	\$ 1,293,922
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO	3.00%	3.00%	3.00%	3.00%
LONG-TERM OBLIGATIONS ⁵	N/A	\$ 38,356,343	\$ 22,563,785	\$ 15,134,230
K-12 AVERAGE DAILY ATTENDANCE AT P-2 ⁴	4,275	4,289	4,301	4,337

The General Fund balance has increased by \$2,595,060 over the past two years. The fiscal year 2018-2019 budget projects a decrease of \$424,701 (4.41 percent). For a district this size, the State recommends available reserves of at least three percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in each of the past three years but anticipates incurring an operating deficit during the 2018-2019 fiscal year. Total long-term obligations have increased by \$23,222,113 over the past two years.

Average daily attendance has decreased by 48 over the past two years. Additional decline of 14 ADA is anticipated during fiscal year 2018-2019.

¹ Budget 2019 is included for analytical purposes only and has not been subjected to audit.

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

³ General Fund amounts do not include activity related to the consolidation of the Deferred Maintenance Fund and Special Reserve Fund for Postemployment Benefits as required by GASB Statement No. 54.

⁴ Does not include Charter School.

⁵ Long-term obligations have been restated due to the implementation of GASB Statement No. 75.

See accompanying note to supplementary information.

ORCUTT UNION SCHOOL DISTRICT

**SCHEDULE OF CHARTER SCHOOLS
FOR THE YEAR ENDED JUNE 30, 2018**

<u>Name of Charter School</u>	<u>Included in Audit Report</u>
Orcutt Academy Charter (Charter No. 0967)	Yes

See accompanying note to supplementary information.

ORCUTT UNION SCHOOL DISTRICT

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

	Child Development Fund	Cafeteria Fund	Special Reserve Fund for Capital Outlay Projects
ASSETS			
Deposits and investments	\$ 10,111	\$ 1,293,298	\$ 247,619
Receivables	14,485	258,840	911
Due from other funds	-	787	-
Stores inventories	-	63,856	-
Total Assets	\$ 24,596	\$ 1,616,781	\$ 248,530
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 5	\$ 57,364	\$ -
Due to other funds	8,219	72,887	-
Unearned revenue	16,060	-	-
Total Liabilities	24,284	130,251	-
Fund Balances:			
Nonspendable	-	63,856	-
Restricted	312	1,422,674	-
Assigned	-	-	248,530
Total Fund Balances	312	1,486,530	248,530
Total Liabilities and Fund Balances	\$ 24,596	\$ 1,616,781	\$ 248,530

See accompanying note to supplementary information.

Bond Interest and Redemption Fund	Total Non-Major Governmental Funds
\$ 2,048,029	\$ 3,599,057
3,865	278,101
-	787
-	63,856
<u>\$ 2,051,894</u>	<u>\$ 3,941,801</u>
\$ -	\$ 57,369
-	81,106
-	16,060
<u>-</u>	<u>154,535</u>
-	63,856
2,051,894	3,474,880
-	248,530
<u>2,051,894</u>	<u>3,787,266</u>
<u>\$ 2,051,894</u>	<u>\$ 3,941,801</u>

ORCUTT UNION SCHOOL DISTRICT

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

	Child Development Fund	Cafeteria Fund	Special Reserve Fund for Capital Outlay Projects
REVENUES			
Federal sources	\$ -	\$ 1,296,903	\$ -
Other State sources	215,996	82,665	-
Other local sources	313	737,895	2,970
Total Revenues	<u>216,309</u>	<u>2,117,463</u>	<u>2,970</u>
EXPENDITURES			
Current			
Instruction	187,352	-	-
Instruction-related activities:			
Supervision of instruction	4,907	-	-
School site administration	15,519	-	-
Pupil services:			
Food services	-	1,921,448	-
Administration:			
All other administration	8,219	72,071	-
Plant services	-	1,748	295
Debt service			
Principal	-	-	-
Interest and other	-	-	-
Total Expenditures	<u>215,997</u>	<u>1,995,267</u>	<u>295</u>
Excess (Deficiency) of Revenues			
Over Expenditures	<u>312</u>	<u>122,196</u>	<u>2,675</u>
Other Financing Sources (Uses)			
Other sources	-	-	-
NET CHANGE IN FUND BALANCES	<u>312</u>	<u>122,196</u>	<u>2,675</u>
Fund Balances - Beginning	<u>-</u>	<u>1,364,334</u>	<u>245,855</u>
Fund Balances - Ending	<u>\$ 312</u>	<u>\$ 1,486,530</u>	<u>\$ 248,530</u>

See accompanying note to supplementary information.

Bond Interest and Redemption Fund	Total Non-Major Governmental Funds
\$ -	\$ 1,296,903
11,801	310,462
1,133,290	1,874,468
<u>1,145,091</u>	<u>3,481,833</u>
-	187,352
-	4,907
-	15,519
-	1,921,448
-	80,290
-	2,043
705,000	705,000
350,399	350,399
<u>1,055,399</u>	<u>3,266,958</u>
<u>89,692</u>	<u>214,875</u>
<u>856,400</u>	<u>856,400</u>
946,092	1,071,275
1,105,802	2,715,991
<u>\$ 2,051,894</u>	<u>\$ 3,787,266</u>

ORCUTT UNION SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2018

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

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

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances, and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts consist primarily of Medi-Cal Billing Option funds that in the previous period were recorded as revenues but were unspent. These unspent balances have been expended in the current period.

Description	CFDA Number	Amount
Total Federal Revenues From the Statement of Revenues, Expenditures, and Changes in Fund Balances:		\$ 3,001,989
Medi-Cal Billing Option	93.778	10,986
Total Schedule of Expenditures of Federal Awards		<u>\$ 3,012,975</u>

Local Education Agency Organization Structure

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

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

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

ORCUTT UNION SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2018

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

The Charter School is required to comply with the provisions of *Education Code* Sections 47612 and 47612.5, if applicable.

Reconciliation of Annual Financial and Budget Report With Audited Financial Statements

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

Schedule of Financial Trends and Analysis

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

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 School District audit.

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

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

INDEPENDENT AUDITOR'S REPORTS



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

Governing Board
Orcutt Union School District
Orcutt, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Orcutt Union School District (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Orcutt Union School District's basic financial statements, and have issued our report thereon dated December 4, 2018.

Emphasis of Matter - Change in Accounting Principles

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

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Orcutt Union School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Orcutt Union School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Orcutt Union School District's internal control.

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of Orcutt Union School District in a separate letter dated December 4, 2018.

Purpose of This Report

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

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 4, 2018



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

Governing Board
Orcutt Union School District
Orcutt, California

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

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

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

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

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 4, 2018



INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
Orcutt Union School District
Orcutt, California

Report on State Compliance

We have audited Orcutt Union School District's (the District) compliance with the types of compliance requirements as identified in the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* that could have a direct and material effect on each of the Orcutt Union School District's State government programs as noted below for the year ended June 30, 2018.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the Orcutt Union School District's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about Orcutt Union School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of Orcutt Union School District's compliance with those requirements.

Unmodified Opinion

In our opinion, Orcutt Union School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2018.

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

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

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

The District did not offer an Early Retirement Incentive Program that was subject to the guideline found in the *Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* during the current year; therefore, we did not perform procedures related to the Early Retirement Incentive Program.

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

The District does not have a Middle or Early College High School Program; therefore, we did not perform procedures related to the Middle or Early College High School Program.

The District does not offer an Apprenticeship Program; therefore, we did not perform any procedures for the Apprenticeship Program.

The District does not offer a Before School Education and Safety Program; therefore, we did not perform any procedures related to the Before School Education and Safety Program.

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

The Charter School did not have more than 20 percent of their total ADA generated through Non Classroom-Based Instruction; therefore, we did not perform any related procedures.

The Charter School did not receive funding for Charter School Facility Grant Program; therefore, we did not perform any related procedures.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 4, 2018

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

ORCUTT UNION SCHOOL DISTRICT

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

FINANCIAL STATEMENTS

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

FEDERAL AWARDS

Internal control over major Federal programs:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>None reported</u>

Type of auditor's report issued on compliance for major Federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 200.516(a) of the Uniform Guidance? No

Identification of major Federal programs:

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

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

STATE AWARDS

Type of auditor's report issued on compliance for programs: Unmodified

ORCUTT UNION SCHOOL DISTRICT

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

None reported.

ORCUTT UNION SCHOOL DISTRICT

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

None reported.

ORCUTT UNION SCHOOL DISTRICT

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

None reported.

ORCUTT UNION SCHOOL DISTRICT

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

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



Governing Board
Orcutt Union School District
Orcutt, California

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

However, during our audit, we noted matters that are opportunities for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated December 4, 2018, on the financial statements of Orcutt Union School District.

2017-2018 Observations and Recommendations

Lakeview Junior High School

ASB - Revenue Potentials

Observation

Revenue potential forms are not being completed with all the necessary items. The revenue potentials are not comparing the budgeted and actual amounts. These forms supply an element of internal controls without which it is difficult to determine the success of a fundraiser and to track money as it is spent and received.

Recommendation

As the revenue potential form is a vital internal control tool, it should be used to document revenues, expenditures, potential revenue, and actual revenue. This allows an analysis of the fundraiser to be conducted, indicating to the staff the success or failure of the completed project. The revenue potential also indicates weak control areas in the fund-raising procedures at the site, including lost or stolen merchandise, problems with collecting all moneys due, and so forth.

Orcutt High School

ASB - Revenue Potentials

Observation

Revenue potential forms are not being completed with all the necessary items and one fundraiser was not approved in the ASB minutes. The revenue potentials are not comparing the budgeted and actual amounts. These forms supply an element of internal controls without which it is difficult to determine the success of a fundraiser and to track money as it is spent and received.

Recommendation

As the revenue potential form is a vital internal control tool, it should be used to document revenues, expenditures, potential revenue, and actual revenue and approved in the ASB minutes. This allows an analysis of the fundraiser to be conducted, indicating to the staff the success or failure of the completed project and allows the students to agree on the fundraiser conducted throughout the year. The revenue potential also indicates weak control areas in the fund-raising procedures at the site, including lost or stolen merchandise, problems with collecting all moneys due and so forth.

Associated Student Body – Financial Statements

Observation

The ASB revolving account is not recognized on the ASB financial statements.

Recommendation

The ASB revolving account should be listed as an individual asset on the ASB's financial statements; that would ensure the assets are not understated.

2016-2017 Observations and Recommendations

Orcutt Junior High

ASB - Missing Fundraiser Approvals on Minutes

Finding

The minutes of the student council meetings are not complete as suggested in the "Associated Student Body Accounting Manual, Fraud Prevention Guide and Desk Reference" as prepared by Fiscal Crisis and Management Assistance Team. During testing of disbursements, the auditor noted there are no approvals for fundraisers in the student council meeting minutes.

Recommendation

The "Associated Student Body Accounting Manual, Fraud Prevention Guide and Desk Reference" suggests that minutes be taken and filed which includes details of the meeting including budgeting procedures, fundraising discussions, and approval of expenditures. In addition, any motion which is presented and voted on must include the individual's name who presented the motion, the person who seconded it, and the final vote on the motion.

Current Status

Implemented

ASB - Missing Revenue Potentials

Observation

Revenue potential forms are not consistently being used to document and control fundraising activities as they occur. These forms supply an element of internal controls without which it is difficult to determine the success of a fundraiser and to track money as it is spent and received.

Recommendation

As the revenue potential form is a vital internal control tool, it should be used to document revenues, expenditures, potential revenue, and actual revenue. This allows an analysis of the fundraiser to be conducted, indicating to the staff the success or failure of the completed project. The revenue potential form also indicates weak control areas in the fundraising procedures at the site, including lost or stolen merchandise, problems with collecting all moneys due, and so forth. The revenue potential form used at the site should contain four major elements. These are:

1. Potential Income - This lists the selling price of the item multiplied by the number of items purchased to compute the total income that should be deposited from this fundraiser if all the items were sold and all the money was turned in. This element should also be utilized to track the cost of the items, check numbers used to purchase the items, and the purchase dates. This purchasing information is a good reference source for future sales and also tracks the cost so that profits can be determined.
2. Receipts/Fundraiser Deposits - This records all deposits turned in which are from funds generated from the sale. The receipt number issued to the advisor, the date, and the deposit amount should be logged. This is necessary to be able to recap the deposits of the sale and to trace these deposits to the appropriate accounts at the end of the sale to the appropriate accounts to ensure that all postings were correct.
3. Analysis - This section is used to compare the potential income as calculated in the Potential Income section to the actual funds raised as calculated in the Receipts/Fundraiser Deposits section. The difference between these two amounts should be documented and explained. The explanation can consist of merchandise not sold, merchandise lost or destroyed, or funds lost or stolen.
4. Recap - This section figures the net profit of the sale. Further fundraisers of this type can be planned or canceled depending on the information calculated in this section.

Current Status

Implemented

ASB - Financial Statements (Inventory)

Observation

The student store monthly inventory is not recognized on the ASB financial statements; therefore, the site does not appear to be aware of its year-end inventory balance.

Recommendation

The student store inventory should be listed as an individual asset on the ASB's financial statements; that would ensure the inventory is reconciled properly to the monthly inventory count.

Current Status

Implemented

District Office

Cal-Card Usage

Observation

During our review of expenditures for the District's Cal-Card program, transactions were noted from the District's Business Department that should have gone through the District's regular purchasing channels.

Recommendation

The District should consider modifying the formalized and specific Cal-Card usage procedure to control its activities. At a minimum, the policy should cover the following areas:

1. Daily and monthly limits by department and personnel.
2. The scope of activities Cal-Cards should be used in accordance with Board policy 3301. During the current fiscal year, it was noted that there was greater compliance with Board Policy 3301, and this should continue in accordance with the District's Board policy
3. Use of District issued credit cards shall be limited to reasonable and necessary expenses for conferences, meetings, travel, and related expenditures while acting within the scope of official district business. All charges on District issued credit cards shall be made in accordance with all policies, procedures, and bylaws of the Board.
4. Reduce the overall number of authorized Cal-Card holders and implement a procedure to checkout Cal-Cards from the District office as needed. It was noted that Cal-Cards have decreased from 23 cards to 17 cards, and reduction in individual card limits have occurred. Cal-Card usage has also decreased significantly from prior years.

Regular transactions for District's day-to-day operations should be processed following established purchasing procedures. By substituting Cal-Cards in place of adhering to the District's purchasing procedures, the District is circumventing established controls that are intended to protect the District and its employees. The use of a Cal-Card may be required and used for certain travel related expenditures. However, all travel and conference activities must be authorized following District procedures. Cal-Card transactions for travel and conferences should not take place prior to the authorization.

Current Status

Partially implemented. The auditor noted positive progress with the District in regards to reducing the overall number of authorized Cal-Card holders. The District has also made positive progress in limiting the purchases on the Cal-Cards to necessary expenses.

Orcutt Union School District
Governing Board

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

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 4, 2018