

**AROMAS-SAN JUAN UNIFIED
SCHOOL DISTRICT
AUDIT REPORT
For the Fiscal Year Ended
June 30, 2018**



AROMAS-SAN JUAN UNIFIED SCHOOL DISTRICT

For the Fiscal Year Ended June 30, 2018

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

Board of Trustees
Aromas-San Juan Unified School District
San Juan Bautista, 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 Aromas-San Juan Unified School District, as of and for the fiscal year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

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

Change in Accounting Principle

As discussed in Note 1.I.1. to the basic financial statements, the District has changed its method for accounting and reporting for postemployment benefits other than pensions during fiscal year 2017-18 due to the adoption of Governmental Accounting Standards Board Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions". The adoption of this standard required retrospective application resulting in a \$735,706 reduction of previously reported net position at July 1, 2017. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

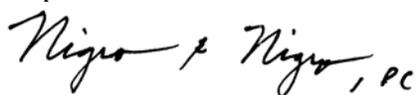
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of proportionate share of the net pension liability, schedule of pension contributions, schedule of changes in the District's total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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements. The supplementary information on pages 59 to 62 and the schedule of expenditures of federal awards on page 63 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole. The information on page 58 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2018, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Murrieta, California
November 21, 2018

AROMAS-SAN JUAN UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2018

This discussion and analysis of Aromas-San Juan Unified School District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2018. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- The District's total net position increased 7.0% over the course of the year.
- Overall revenues were \$15.0 million, about \$0.4 million more than expenses.
- The total cost of basic programs was \$14.6 million. Because a portion of these costs was paid for with charges, fees, and intergovernmental aid, the net cost that required taxpayer funding was \$12.9 million.
- District average daily attendance (ADA) in grades K-12 decreased by 17, or 1.6%.

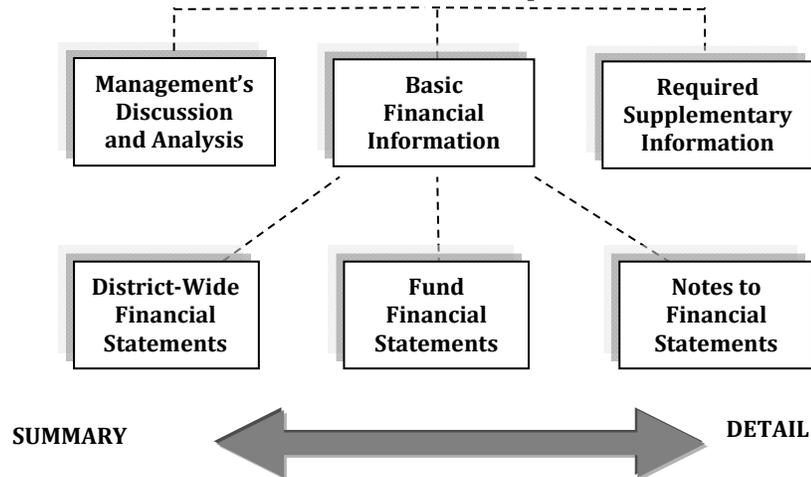
OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

Figure A-1. Organization of Aromas-San Juan Unified School District's Annual Financial Report

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.



AROMAS-SAN JUAN UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2018

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

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

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

Type of Statements	District-Wide	Governmental Funds	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	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 & Changes in Fund Balances 	<ul style="list-style-type: none"> • Statement of 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
<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 nonfinancial assets, though they can
<i>Type of inflow/outflow information</i>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

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

AROMAS-SAN JUAN UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2018

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

District-Wide Statements

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

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

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

Fund Financial Statements

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

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

The District has two kinds of funds:

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

AROMAS-SAN JUAN UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2018

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position. The District's combined net position was higher on June 30, 2018, than it was the year before – increasing 7.0% to \$(5.2) million (See Table A-1).

Table A-1: Statement of Net Position

	Governmental Activities		Variance Increase (Decrease)
	2018	2017*	
Assets			
Current assets	\$ 8,171,966	\$ 6,961,672	\$ 1,210,294
Capital assets	18,832,668	19,379,235	(546,567)
Total assets	<u>27,004,634</u>	<u>26,340,907</u>	<u>663,727</u>
Deferred outflows of resources	<u>5,134,585</u>	<u>4,126,527</u>	<u>1,008,058</u>
Liabilities			
Current liabilities	1,524,011	1,651,764	(127,753)
Long-term liabilities	21,496,706	21,261,369	235,337
Net pension liability	11,940,229	10,893,551	1,046,678
Total liabilities	<u>34,960,946</u>	<u>33,806,684</u>	<u>1,154,262</u>
Deferred inflows of resources	<u>2,384,596</u>	<u>2,259,058</u>	<u>125,538</u>
Net position			
Net investment in capital assets	4,007,157	3,909,686	97,471
Restricted	2,471,163	2,105,756	365,407
Unrestricted	(11,684,643)	(11,613,750)	(70,893)
Total net position	<u>\$ (5,206,323)</u>	<u>\$ (5,598,308)</u>	<u>\$ 391,985</u>

**As restated*

Changes in net position, governmental activities. The District's total revenues increased 2.3% to \$15.0 million (See Table A-2). The increase is due primarily to increased property tax revenues and other general revenues.

The total cost of all programs and services decreased 0.7% to \$14.6 million. The District's expenses are predominantly related to educating and caring for students, 61.6%. The purely administrative activities of the District accounted for just 8.3% of total costs.

AROMAS-SAN JUAN UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2018

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (continued)

Table A-2: Statement of Activities

	Governmental Activities		Variance Increase (Decrease)
	2018	2017	
Revenues			
Program Revenues:			
Charges for services	\$ 130,807	\$ 172,283	\$ (41,476)
Operating grants and contributions	1,656,992	2,179,239	(522,247)
General Revenues:			
Property taxes	10,523,622	9,998,963	524,659
Federal and state aid not restricted	2,141,872	2,189,700	(47,828)
Other general revenues	579,981	161,845	418,136
Total Revenues	15,033,274	14,702,030	331,244
Expenses			
Instruction-related	7,494,705	7,881,217	(386,512)
Pupil services	1,518,833	1,483,603	35,230
Administration	1,209,998	1,111,533	98,465
Plant services	1,630,822	1,402,114	228,708
All other activities	2,786,931	2,869,076	(82,145)
Total Expenses	14,641,289	14,747,543	(106,254)
Increase (decrease) in net position	\$ 391,985	\$ (45,513)	\$ 437,498
Total Net Position	\$ (5,206,323)	\$ (5,598,308)	

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed this year, its governmental funds reported a combined fund balance of \$6.7 million, which is above last year's ending fund balance of \$5.4 million. The primary cause of the increased fund balance is increased General Fund revenues.

Table A-3: The District's Fund Balances

Fund	Fund Balances				
	July 1, 2017	Revenues	Expenditures	Other Sources and (Uses)	June 30, 2018
General Fund	\$ 3,792,034	\$ 13,400,725	\$ 12,614,151	\$ (509)	\$ 4,578,099
Child Development Fund	8,359	275,792	277,667	-	6,484
Cafeteria Fund	83,187	596,433	587,657	-	91,963
Building Fund	(508)	(1)	-	509	-
Capital Facilities Fund	190,068	413,070	2,980	-	600,158
Bond Interest and Redemption Fund	1,345,122	972,533	848,050	-	1,469,605
	\$ 5,418,262	\$ 15,658,552	\$ 14,330,505	\$ -	\$ 6,746,309

AROMAS-SAN JUAN UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2018

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (continued)

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 – increased by over \$1.7 million primarily to reflect increased property taxes.
- Salaries and benefits costs – increased \$0.8 million due to salary negotiations.
- Books and supplies and other services – decreased about \$0.1 million to budget carryover funds.

While the District's final budget for the General Fund anticipated that revenues would exceed expenditures by about \$0.9 million, the actual results for the year show that revenues exceeded expenditures by roughly \$0.8 million. Actual revenues were \$577,424 less than anticipated, and expenditures were \$506,029 less than budgeted.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2017-18 the District had invested \$236,370 in new capital assets. (More detailed information about capital assets can be found in Note 5 to the financial statements). Total depreciation expense for the year was \$782,937.

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

	Governmental Activities		Variance Increase (Decrease)
	2018	2017	
Land	\$ 998,300	\$ 998,300	\$ -
Improvement of sites	219,281	257,060	(37,779)
Buildings	17,209,633	17,572,736	(363,103)
Equipment	405,454	551,139	(145,685)
Total	\$ 18,832,668	\$ 19,379,235	\$ (546,567)

AROMAS-SAN JUAN UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2018

CAPITAL ASSET AND DEBT ADMINISTRATION (continued)

Long-Term Debt

At June 30, 2018 the District had \$21.5 million in long-term debt – an increase of 1.1% from last year – as shown in Table A-5. (More detailed information about the District's long-term liabilities is presented in Note 6 to the financial statements).

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

	Governmental Activities		Variance Increase (Decrease)
	2018	2017*	
General obligation bonds	\$ 19,991,082	\$ 19,736,069	\$ 255,013
Capital lease obligations	15,900	30,094	(14,194)
Settlement agreement	15,000	30,000	(15,000)
Compensated absences	65,666	59,927	5,739
Early retirement incentive	-	5,625	(5,625)
Other postemployment benefits	1,409,058	1,399,654	9,404
Total	\$ 21,496,706	\$ 21,261,369	\$ 235,337

**As restated*

FACTORS BEARING ON THE DISTRICT'S FUTURE

The 2018-19 State Budget

Final Budget Package Includes \$15.9 Billion in Total Reserves

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

Overall Spending

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

Considerable New Spending on Education

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

AROMAS-SAN JUAN UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2018

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

The 2018-19 State Budget (continued)

Proposition 98 Establishes Minimum Spending Level

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

Higher Proposition 98 Spending in 2016-17 and 2017-18

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

2018-19 Spending up Notably Over Revised 2017-18 Level

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

\$67.9 Billion Proposition 98 Spending on K-12 Education in 2018-19

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

Package Includes Mix of Ongoing and One-Time Spending

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

AROMAS-SAN JUAN UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2018

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

The 2018-19 State Budget (continued)

Fully Implements the Local Control Funding Formula (LCFF) for Schools, Then Further Increases Rates

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

Funds One-Time Discretionary Grants

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

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the District's Financial Management at Aromas-San Juan Unified School District, 2300 San Juan Highway, San Juan Bautista, California, 95045.

AROMAS-SAN JUAN UNIFIED SCHOOL DISTRICT
Statement of Net Position
June 30, 2018

	Total Governmental Activities
ASSETS	
Cash	\$ 7,814,674
Accounts receivable	351,523
Inventories	3,584
Prepaid expenses	2,185
Non-depreciable assets	998,300
Depreciable assets	30,055,019
Less accumulated depreciation	<u>(12,220,651)</u>
Total assets	<u>27,004,634</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred amounts on refunding	1,550,216
Deferred outflows of resources - OPEB	173,748
Deferred outflows of resources - pensions	<u>3,410,621</u>
Total deferred outflows of resources	<u>5,134,585</u>
LIABILITIES	
Accounts payable	1,284,067
Unearned revenue	239,944
Long-term liabilities:	
Portion due or payable within one year	744,907
Portion due or payable after one year	20,751,799
Net pension liability	<u>11,940,229</u>
Total liabilities	<u>34,960,946</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources - OPEB	7,278
Deferred inflows of resources - pensions	<u>2,377,318</u>
Total deferred inflows of resources	<u>2,384,596</u>
NET POSITION	
Net investment in capital assets	4,007,157
Restricted for:	
Capital projects	600,158
Debt service	1,469,605
Educational programs	401,400
Unrestricted	<u>(11,684,643)</u>
Total net position	<u>\$ (5,206,323)</u>

AROMAS-SAN JUAN UNIFIED SCHOOL DISTRICT

Statement of Activities

For the Fiscal Year Ended June 30, 2018

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
Governmental Activities:				
Instructional Services:				
Instruction	\$ 6,150,295	\$ 12,470	\$ 419,918	\$ (5,717,907)
Instruction-Related Services:				
Supervision of instruction	222,945	-	32,852	(190,093)
Instructional library, media and technology	138,485	-	89,045	(49,440)
School site administration	982,980	7,095	99,794	(876,091)
Pupil Support Services:				
Home-to-school transportation	518,059	-	1,469	(516,590)
Food services	616,243	110,583	485,849	(19,811)
All other pupil services	384,531	-	129,399	(255,132)
General Administration Services:				
Data processing services	174,070	-	-	(174,070)
Other general administration	1,035,928	-	39,295	(996,633)
Plant Services	1,630,822	659	161,551	(1,468,612)
Ancillary Services	72,820	-	57,172	(15,648)
Interest on Long-Term Debt	1,141,381	-	-	(1,141,381)
Other Outgo	789,793	-	140,648	(649,145)
Depreciation (unallocated)	782,937	-	-	(782,937)
Total Governmental Activities	\$ 14,641,289	\$ 130,807	\$ 1,656,992	(12,853,490)
General Revenues:				
Property taxes				10,523,622
Federal and state aid not restricted to specific purpose				2,141,872
Interest and investment earnings				64,271
Interagency revenues				46,446
Miscellaneous				469,264
Total general revenues				13,245,475
Change in net position				391,985
Net position - July 1, 2017, as originally stated				(4,862,602)
Restatement - change in accounting principle				(735,706)
Net position - July 1, 2017, as restated				(5,598,308)
Net position - June 30, 2018				\$ (5,206,323)

AROMAS-SAN JUAN UNIFIED SCHOOL DISTRICT
Balance Sheet – Governmental Funds
June 30, 2018

	General Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS				
Cash	\$ 5,653,909	\$ 1,469,605	\$ 691,160	\$ 7,814,674
Accounts receivable	347,148	-	4,375	351,523
Stores inventories	-	-	3,584	3,584
Prepaid expenditures	1,300	-	885	2,185
Total Assets	<u>\$ 6,002,357</u>	<u>\$ 1,469,605</u>	<u>\$ 700,004</u>	<u>\$ 8,171,966</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 1,184,314	\$ -	\$ 1,399	\$ 1,185,713
Unearned revenue	239,944	-	-	239,944
Total Liabilities	<u>1,424,258</u>	<u>-</u>	<u>1,399</u>	<u>1,425,657</u>
Fund Balances				
Nonspendable	3,800	-	4,469	8,269
Restricted	302,953	1,469,605	694,136	2,466,694
Assigned	2,582,596	-	-	2,582,596
Unassigned	1,688,750	-	-	1,688,750
Total Fund Balances	<u>4,578,099</u>	<u>1,469,605</u>	<u>698,605</u>	<u>6,746,309</u>
Total Liabilities and Fund Balances	<u>\$ 6,002,357</u>	<u>\$ 1,469,605</u>	<u>\$ 700,004</u>	<u>\$ 8,171,966</u>

AROMAS-SAN JUAN UNIFIED SCHOOL DISTRICT

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position June 30, 2018

Total fund balances - governmental funds \$ 6,746,309

Amounts reported for governmental *activities* in the statement of net position are different because capital assets used for governmental activities are not financial resources and therefore are not reported as assets in governmental funds.

The cost of capital assets is:	31,053,319	
Accumulated depreciation is:	<u>(12,220,651)</u>	
Capital assets, net of depreciation		18,832,668

In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred.

The additional liability for unmatured interest owing at the end of the period was: (98,354)

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

General Obligation Bonds Payable	19,991,082	
Capital Lease Obligations	15,900	
Settlement Agreement	15,000	
Compensated Absences	65,666	
Other Postemployment Benefits	<u>1,409,058</u>	
		(21,496,706)

The net pension liability is not due and payable in the current reporting period, and therefore is not reported as a liability in the fund financial statements. (11,940,229)

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

Deferred outflows of resources relating to OPEB	173,748
Deferred inflows of resources relating to OPEB	(7,278)

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

Deferred outflows of resources relating to pensions	3,410,621
Deferred inflows of resources relating to pensions	(2,377,318)

Deferred amounts on refunding represent amounts paid to an escrow agent in excess of the outstanding debt at the time of the payment for refunded bonds which have been defeased. In government-wide statements it is recognized as a deferred outflow of resources. The remaining deferred amounts on refunding at the end of the period were:

1,550,216

Total net position - governmental activities \$ (5,206,323)

AROMAS-SAN JUAN UNIFIED SCHOOL DISTRICT

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

	General Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES				
LCFF sources	\$ 11,330,666	\$ -	\$ -	\$ 11,330,666
Federal sources	595,975	-	453,211	1,049,186
Other state sources	885,433	5,154	284,855	1,175,442
Other local sources	588,651	967,379	547,228	2,103,258
Total Revenues	13,400,725	972,533	1,285,294	15,658,552
EXPENDITURES				
Current:				
Instructional Services:				
Instruction	6,718,671	-	171,972	6,890,643
Instruction-Related Services:				
Supervision of instruction	216,965	-	-	216,965
Instructional library, media and technology	116,732	-	-	116,732
School site administration	897,172	-	96,712	993,884
Pupil Support Services:				
Home-to-school transportation	503,390	-	-	503,390
Food services	-	-	587,657	587,657
All other pupil services	403,371	-	-	403,371
Ancillary Services:				
Ancillary Services	73,028	-	-	73,028
General Administration Services:				
Data processing services	167,669	-	-	167,669
Other general administration	952,593	-	2,980	955,573
Plant Services:				
Plant Services	1,538,919	-	8,983	1,547,902
Capital Outlay:				
Capital Outlay	220,188	-	-	220,188
Intergovernmental Transfers:				
Intergovernmental Transfers	789,793	-	-	789,793
Debt Service:				
Principal	14,194	600,000	-	614,194
Interest	1,466	248,050	-	249,516
Total Expenditures	12,614,151	848,050	868,304	14,330,505
Excess (Deficiency) of Revenues Over (Under) Expenditures	786,574	124,483	416,990	1,328,047
OTHER FINANCING SOURCES (USES)				
Interfund transfers in	-	-	509	509
Interfund transfers out	(509)	-	-	(509)
Total Other Financing Sources and Uses	(509)	-	509	-
Net Change in Fund Balances	786,065	124,483	417,499	1,328,047
Fund Balances, July 1, 2017	3,792,034	1,345,122	281,106	5,418,262
Fund Balances, June 30, 2018	\$ 4,578,099	\$ 1,469,605	\$ 698,605	\$ 6,746,309

AROMAS-SAN JUAN UNIFIED SCHOOL DISTRICT

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

Total net change in fund balances - governmental funds \$ 1,328,047

Amounts reported for governmental *activities* in the statement of activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is:

Expenditures for capital outlay	236,370	
Depreciation expense	<u>(782,937)</u>	(546,567)

In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reductions of liabilities. Expenditures for repayment of the principal portion of long-term debt were: 614,194

Deferred amounts on refunding represent amounts paid to an escrow agent in excess of the outstanding debt at the time of the payment for refunded bonds which have been defeased. In governmental funds these amounts are recognized as an expenditure. However, in the statement of activities, these amounts are amortized over the life of the refunded debt. The difference between current year amounts and the current year amortization is: (48,318)

In governmental funds, OPEB expenses are recognized when employer OPEB contributions are made. In the statement of activities, OPEB expenses are recognized on the accrual basis. This year, the difference between OPEB expenses and actual employer OPEB contributions was: 157,066

In government-wide statements, expenses must be accrued in connection with any liabilities incurred during the period that are not expected to be liquidated with current financial resources, in addition to compensated absences and long-term debt. Examples include special termination benefits such as early retirement incentives financed over time, and structured legal settlements. This year, expenses incurred for such obligations were: 20,625

In governmental funds, if debt is issued at a premium, the premium is recognized as an other financing source in the period it is incurred. In the government-wide statements, the premium is amortized as interest over the life of the debt. Amortization of premium for the period is: 59,430

In governmental funds, pension costs are recognized when employer contributions are made. In the statement of activities, pension costs are recognized on the accrual basis. This year, the difference between accrual-basis pension costs and actual employer contributions was: (282,310)

In governmental funds, accreted interest on capital appreciation bonds is not recorded as an expenditure from current resources. In the government-wide statement of activities, however, this is recorded as interest expense for the period. (914,443)

In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period that it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period, was: 10,000

In the statement of activities, compensated absences 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*). Amounts earned exceeded the amounts paid by: (5,739)

Change in net position of governmental activities \$ 391,985

AROMAS-SAN JUAN UNIFIED SCHOOL DISTRICT*Statement of Fiduciary Net Position**June 30, 2018*

	<u>Trust Fund</u>	<u>Agency Funds</u>	
	<u>Retiree Benefits Trust</u>	<u>Student Body Funds</u>	<u>Total</u>
ASSETS			
Cash	\$ -	\$ 106,720	\$ 106,720
Investments	204,705	-	204,705
Total Assets	<u>204,705</u>	<u>\$ 106,720</u>	<u>311,425</u>
LIABILITIES			
Due to student groups	-	\$ 106,720	106,720
Total Liabilities	<u>-</u>	<u>\$ 106,720</u>	<u>106,720</u>
NET POSITION			
Held in trust for other postemployment benefits	<u>204,705</u>		<u>204,705</u>
Total Net Position	<u>\$ 204,705</u>		<u>\$ 204,705</u>

AROMAS-SAN JUAN UNIFIED SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Position
June 30, 2018

	Retiree Benefits Trust
ADDITIONS	
In-district contributions	\$ 100,000
Investment earnings	21,211
Total additions	<u>121,211</u>
DEDUCTIONS	
Distributions	94,357
Administrative fees	173
Total Deductions	<u>94,530</u>
Net increase (decrease)	26,681
Net position held in trust for other postemployment benefits	
Beginning of year, July 1, 2017	<u>178,024</u>
End of year, June 30, 2018	<u>\$ 204,705</u>

AROMAS-SAN JUAN UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

The District has identified no organizations that are required to be reported as component units.

B. Basis of Presentation, Basis of Accounting

1. Basis of Presentation

Government-Wide Financial Statements

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

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements

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

AROMAS-SAN JUAN UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation, Basis of Accounting

1. Basis of Presentation (continued)

Major Governmental Funds

The District maintains the following major governmental funds:

General Fund: This fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

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

Non-Major Governmental Funds

The District maintains the following non-major governmental funds:

Special Revenue Funds:

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

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

Capital Projects Fund:

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

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

Fiduciary Funds

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

Trust Fund: The District maintains a Retiree Benefits Trust Fund. The fund is used to accumulate resources for the payment of future retiree health and welfare benefits.

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

AROMAS-SAN JUAN UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

2. Measurement Focus, Basis of Accounting

Government-Wide and Fiduciary Fund Financial Statements

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

Governmental Fund Financial Statements

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

2. Revenues - Exchange and Non-Exchange Transactions

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

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

AROMAS-SAN JUAN UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Budgetary Data

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

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

D. Encumbrances

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

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

1. Cash and Cash Equivalents

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

2. Inventories and Prepaid Items

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

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

3. Capital Assets

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

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

Description	Estimated Lives
Buildings	20-50 years
Improvements/Infrastructure	5-50 years
Equipment	2-15 years

AROMAS-SAN JUAN UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

4. Unearned Revenue

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

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

5. Deferred Outflows/Inflows of Resources

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

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

6. Compensated Absences

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

7. Postemployment Benefits Other Than Pensions (OPEB)

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

AROMAS-SAN JUAN UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

8. Pensions

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

9. Fund Balances

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

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

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

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

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

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

AROMAS-SAN JUAN UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

10. Net Position

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

- **Net investment in capital assets** - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- **Restricted** - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net position** - This component of net position consists of net position that does not meet the definition of "net investment in capital assets" or "restricted".

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

F. Minimum Fund Balance Policy

Fund balance measures the net financial resources available to finance expenditures of future periods. The District's Unassigned General Fund Balance will be maintained to provide the District with sufficient working capital and a margin of safety to address local and regional emergencies without borrowing. The Unassigned General Fund Balance may only be appropriate by resolution of the Board of Trustees.

Fund Balance of the District may be committed for specific source by formal action of the Board of Trustees. Amendments or modification to the committee fund balance must also be approved by formal action of the Board of Trustees. Committed fund balance does not lapse at year-end. The formal action required to commit fund balance shall be by board resolution or majority vote.

The Board of Trustees delegates' authority to assign fund balances for a specific purpose (i.e., grant projects not completed at year end, to the Business Manager of the District).

For purposes of fund balance classification, expenditures are to be spent from restricted fund balances first and then unrestricted. Expenditures incurred in the unrestricted fund balances shall be reduced first from the committed fund balance, then from the assigned fund balance and lastly, the unassigned fund balance.

The Board of Trustees recognizes that good fiscal management comprises the foundation support of the entire District. To make that support as effective as possible, the Board intends to maintain a minimum fund balance of 9% by Board Policy of the District's general fund annual operating expenditures.

AROMAS-SAN JUAN UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Minimum Fund Balance Policy (continued)

If a fund balance drops below 9%, it shall be recovered at a rate of 1% minimally, each year. This policy should be revised each year for review.

G. Property Tax Calendar

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

H. Use of Estimates

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

I. New GASB Pronouncements

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

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

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

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

AROMAS-SAN JUAN UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. New GASB Pronouncements (continued)

3. In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). Specifically, this Statement addresses the following topics:
 - Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation
 - Reporting amounts previously reported as goodwill and “negative” goodwill
 - Classifying real estate held by insurance entities
 - Measuring certain money market investments and participating interest-earning investment contracts at amortized cost
 - Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus
 - Recognizing on-behalf payments for pensions or OPEB in employer financial statements
 - Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB
 - Classifying employer-paid member contributions for OPEB
 - Simplifying certain aspects of the alternative measurement method for OPEB
 - Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

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

AROMAS-SAN JUAN UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 2 – CASH AND INVESTMENTS

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

	Governmental Funds/Activities	Fiduciary Funds
Pooled Funds:		
Cash in County Treasury	\$ 7,780,631	\$ -
Total Pooled Funds	<u>7,780,631</u>	<u>-</u>
Deposits:		
Cash on hand and in banks	31,543	106,720
Cash in revolving fund	2,500	-
Total Deposits	<u>34,043</u>	<u>106,720</u>
Total Cash	<u>\$ 7,814,674</u>	<u>\$ 106,720</u>
Investments:	<u>Rating</u>	
SISC OPEB Trust	N/A	<u>\$ 204,705</u>

Pooled Funds

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

Because the District's deposits are maintained in a recognized pooled investment fund under the care of a third party and the District's share of the pool does not consist of specific, identifiable investment securities owned by the District, no disclosure of the individual deposits and investments or related custodial credit risk classifications is required. In accordance with applicable state laws, the County Treasurer may invest in derivative securities with the State of California. However, at June 30, 2018, the County Treasurer has represented that the Pooled Investment Fund contained no derivatives or other investments with similar risk profiles.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. Cash balances held in banks are insured up to \$250,000 by the Federal Depository Insurance Corporation (FDIC) and are collateralized by the respective financial institutions. In addition, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies.

California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits.

AROMAS-SAN JUAN UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 2 – CASH AND INVESTMENTS (continued)

Custodial Credit Risk – Deposits (continued)

As of June 30, 2018, none of the District's bank balance was exposed to custodial credit risk because it was insured by the FDIC.

Investments - Interest Rate Risk

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

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

	Fair Value Measurement	Fair Value	Maturity	
			Less Than One Year	One Year Through Five Years
Investment maturities:				
SISC OPEB Trust	Level 2	\$ 204,705	\$ 204,705	\$ -

Investments - Credit Risk

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

Investments - Concentration of Credit Risk

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

SISC OPEB Trust	100%
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AROMAS-SAN JUAN UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 2 – CASH AND INVESTMENTS (continued)

Fair Value Measurements

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

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

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

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

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

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

NOTE 3 – ACCOUNTS RECEIVABLE

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

	Governmental Funds/Activities		
	General Fund	Non-Major Governmental Funds	Totals
Federal Government:			
Categorical aid programs	\$ 280,343	\$ 3,725	\$ 284,068
State Government:			
Lottery	37,708	-	37,708
Categorical aid programs	4,128	650	4,778
Local:			
Miscellaneous	24,627	-	24,627
Other local resources	342	-	342
Total	<u>\$ 347,148</u>	<u>\$ 4,375</u>	<u>\$ 351,523</u>

AROMAS-SAN JUAN UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2018

NOTE 4 – FUND BALANCES

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

	General Fund	Bond Interest & Redemption Fund	Non-Major Governmental Funds	Total
Nonspendable:				
Revolving cash	\$ 2,500	\$ -	\$ -	\$ 2,500
Stores inventories	-	-	3,584	3,584
Prepaid expenditures	1,300	-	885	2,185
Total Nonspendable	<u>3,800</u>	<u>-</u>	<u>4,469</u>	<u>8,269</u>
Restricted:				
Categorical programs	302,953	-	6,484	309,437
Nutrition program	-	-	87,494	87,494
Capital projects	-	-	600,158	600,158
Debt service	-	1,469,605	-	1,469,605
Total Restricted	<u>302,953</u>	<u>1,469,605</u>	<u>694,136</u>	<u>2,466,694</u>
Assigned:				
Reserve for Economic Uncertainty (3%)	368,000	-	-	368,000
Board reserve (6%)	735,906	-	-	735,906
Special education reserve	200,000	-	-	200,000
Reserve for county adjustments	250,000	-	-	250,000
Basic aid reserve	523,000	-	-	523,000
Compliance reserve	87,364	-	-	87,364
Health and safety	75,000	-	-	75,000
Technology	150,000	-	-	150,000
Prepayments	3,326	-	-	3,326
NGSS	190,000	-	-	190,000
Total Assigned	<u>2,582,596</u>	<u>-</u>	<u>-</u>	<u>2,582,596</u>
Unassigned:				
Remaining unassigned balances	1,688,750	-	-	1,688,750
Total Unassigned	<u>1,688,750</u>	<u>-</u>	<u>-</u>	<u>1,688,750</u>
Total	<u>\$ 4,578,099</u>	<u>\$ 1,469,605</u>	<u>\$ 698,605</u>	<u>\$ 6,746,309</u>

AROMAS-SAN JUAN UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
 June 30, 2018

NOTE 5 – CAPITAL ASSETS AND DEPRECIATION

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

	Balance, July 1, 2017	Additions	Retirements	Balance, June 30, 2018
Capital assets not being depreciated:				
Land	\$ 998,300	\$ -	\$ -	\$ 998,300
Total capital assets not being depreciated	<u>998,300</u>	<u>-</u>	<u>-</u>	<u>998,300</u>
Capital assets being depreciated:				
Land Improvements	913,859	-	-	913,859
Buildings & Improvements	26,937,483	216,102	-	27,153,585
Equipment	1,967,307	20,268	-	1,987,575
Total capital assets being depreciated	<u>29,818,649</u>	<u>236,370</u>	<u>-</u>	<u>30,055,019</u>
Accumulated depreciation for:				
Land Improvements	(656,799)	(37,779)	-	(694,578)
Buildings & Improvements	(9,364,747)	(579,205)	-	(9,943,952)
Equipment	(1,416,168)	(165,953)	-	(1,582,121)
Total accumulated depreciation	<u>(11,437,714)</u>	<u>(782,937)</u>	<u>-</u>	<u>(12,220,651)</u>
Total capital assets being depreciated, net	<u>18,380,935</u>	<u>(546,567)</u>	<u>-</u>	<u>17,834,368</u>
Governmental activity capital assets, net	<u>\$ 19,379,235</u>	<u>\$ (546,567)</u>	<u>\$ -</u>	<u>\$ 18,832,668</u>

NOTE 6 – LONG-TERM DEBT

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

	Balance, July 1, 2017	Additions	Deductions	Balance, June 30, 2018	Amount Due Within One Year
General Obligation Bonds:					
Principal Payments	\$ 14,861,896	\$ -	\$ 600,000	\$ 14,261,896	\$ 665,000
Accreted Interest	4,267,028	914,443	-	5,181,471	-
Issuance Premium	607,145	-	59,430	547,715	59,429
Sub-total General Obligation Bonds	<u>19,736,069</u>	<u>914,443</u>	<u>659,430</u>	<u>19,991,082</u>	<u>724,429</u>
Capital Lease Obligations	30,094	-	14,194	15,900	5,478
Settlement Agreement	30,000	-	15,000	15,000	15,000
Compensated Absences	59,927	5,739	-	65,666	-
Early Retirement Incentive	5,625	-	5,625	-	-
Other Postemployment Benefits	1,399,654	171,955	162,551	1,409,058	-
Sub-Totals	<u>\$ 21,261,369</u>	<u>\$ 1,092,137</u>	<u>\$ 856,800</u>	<u>\$ 21,496,706</u>	<u>\$ 744,907</u>

Payments for general obligation bonds are made by the Bond Interest and Redemption fund. Compensated absences, early retirement incentives, settlement agreements, and other postemployment benefits will be paid for by the fund for which the employee worked. Capital leases are paid for by the General Fund.

AROMAS-SAN JUAN UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 6 – LONG-TERM DEBT (continued)

A. General Obligation Bonds

Election of 2002

On July 30, 2002, General Obligation Bonds (Election of 2002, Series A) in the amount of \$11,199,046 were authorized at an election of the registered voters of the District. The Bonds were issued as Current Interest Bonds in the amount of \$9,635,000 and Capital Appreciation Bonds in the amount of \$1,564,046. During the 2011-12 fiscal year, the remaining Current Interest Bonds were redeemed. The Capital Appreciation Bonds maturing August 1, 2024 to August 1, 2026, are dated the date of delivery of the Bonds and accreted interest from such date, compounded semiannually on February 1 and August 1 of each year, commencing August 1, 2002. The proceeds of the Bonds were used to fund the construction, renovation and repair of certain District facilities and to refinance certain of the District's outstanding indebtedness.

Election of 2010

On March 2, 2011, General Obligation Bonds (Election of 2010, Series A) in the amount of \$1,999,078 were issued. The Bonds were issued as Capital Appreciation Bonds. The Capital Appreciation Serial Bonds maturing August 1, 2028 to August 1, 2045, are dated the date of delivery of the Bonds and accrete interest from such date, compounded semiannually on February 1 and August 1 of each year. The Capital Appreciation Term Bonds maturing August 1, 2050, are dated the date of delivery of the Bonds and accrete interest from such date, compounded semiannually on February 1 and August 1 of each year. The term bonds are subject to redemption prior to maturity beginning August 1, 2046. The proceeds of the Bonds were used to fund the construction, renovation and repair of certain District facilities and to refinance certain of the District's outstanding indebtedness. On January 10, 2013, General Obligation Bonds (Election of 2010, Series B) in the amount of \$3,499,498 were issued. The Bonds were issued as Capital Appreciation Bonds. The Bonds were issued to finance the acquisition, construction, modernization and equipping of District sites and facilities, and to pay the cost of issuance associated with the bonds.

Prior-Year Defeasance of Debt

In prior years, the District defeased certain general obligation bonds by placing the proceeds of new refunding bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. At June 30, 2018, \$1,588,023 of bonds outstanding are considered defeased.

The difference between the reacquisition price and the net carrying amount of the old debt is reported as a deferred outflow of resources and recognized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter. At June 30, 2018, deferred amounts on refunding were \$1,550,216.

AROMAS-SAN JUAN UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
 June 30, 2018

NOTE 6 – LONG-TERM DEBT (continued)

A. General Obligation Bonds (continued)

A summary of bonds issued and outstanding at June 30 follows:

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Balance, July 1, 2017	Additions	Deductions	Balance, June 30, 2018
Election of 2002 (Measure S)								
Series A	7/30/2002	7/1/2027	3.25%-5.50%	\$ 11,199,046	\$ 1,564,046	\$ -	\$ -	\$ 1,564,046
Election of 2010 (Measure Z)								
Series A	3/2/2011	8/1/2050	7.43%-8.50%	1,999,078	411,055	-	-	411,055
Series B	1/10/2013	8/1/2052	4.66%-5.25%	3,499,498	3,499,498	-	-	3,499,498
Refunding Bonds								
2011 Ref.	8/1/2011	8/1/2023	2.0%-5.0%	8,100,000	5,805,000	-	600,000	5,205,000
2016 Ref.	3/31/2016	8/1/2050	4.03%-5.29%	3,582,297	3,582,297	-	-	3,582,297
					<u>\$ 14,861,896</u>	<u>\$ -</u>	<u>\$ 600,000</u>	<u>\$ 14,261,896</u>

Accreted Interest	Balance, July 1, 2017	Additions	Deductions	Balance, June 30, 2018
2002 A	\$ 1,952,724	\$ 199,324	\$ -	\$ 2,152,048
2010 A	1,320,245	297,708	-	1,617,953
2010 B	854,076	242,130	-	1,096,206
2016 Ref.	139,983	175,281	-	315,264
		<u>\$ 4,267,028</u>	<u>\$ 914,443</u>	<u>\$ 5,181,471</u>

The annual requirements to amortize general obligation bonds outstanding at June 30, 2018, are as follows:

Fiscal Year	Principal	Interest	Total
2018-2019	\$ 665,000	\$ 222,750	\$ 887,750
2019-2020	740,000	194,650	934,650
2020-2021	815,000	163,550	978,550
2021-2022	900,000	125,750	1,025,750
2022-2023	990,000	79,500	1,069,500
2023-2028	2,659,046	4,223,329	6,882,375
2028-2033	1,133,128	4,141,872	5,275,000
2033-2038	1,244,988	1,740,702	2,985,690
2038-2043	1,346,638	2,656,286	4,002,924
2043-2048	1,463,368	3,804,796	5,268,164
2048-2053	2,304,728	5,306,756	7,611,484
		<u>\$ 14,261,896</u>	<u>\$ 22,659,941</u>
			<u>\$ 36,921,837</u>

AROMAS-SAN JUAN UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 6 – LONG-TERM DEBT (continued)

B. Capital Leases

The District leases equipment valued at \$31,564 under agreements that provide for title to pass upon expiration of the lease period. Future minimum lease payments are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018-2019	\$ 5,478	\$ 835	\$ 6,313
2019-2020	5,763	550	6,313
2020-2021	<u>4,659</u>	<u>249</u>	<u>4,908</u>
	<u>\$ 15,900</u>	<u>\$ 1,634</u>	<u>\$ 17,534</u>

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

C. Settlement Agreement

The District has entered into a legal settlement with an employee that requires the District to make five annual payments to the former employee of \$15,000, starting on December 31, 2013 and ending on December 31, 2018. As of June 30, 2018, one payment totaling \$15,000 remains.

NOTE 7 – INTERFUND TRANSFER

During the fiscal year, the District made an interfund transfer of \$509 from the General Fund to the Building Fund to reimburse it for previous capital outlay.

NOTE 8 – JOINT POWERS AGREEMENTS

The District is a member of the Santa Cruz/San Benito County Schools Insurance Group (SCSBCSIG), Self-Insured Schools of California (SISC), and the Monterey County Schools Liability and Property Self-Insurance Authority (MCSLPSIA) public entity risk pools. The District pays an annual premium to each entity for its health, worker’s compensation, and property liability coverage. The relationships between the District and the JPA’s are such that the JPA’s are not component units of the District for financial reporting purposes.

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

AROMAS-SAN JUAN UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 9 – COMMITMENTS AND CONTINGENCIES

A. State and Federal Allowances, Awards and Grants

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

B. Litigation

The District is involved in certain legal matters that arose out of the normal course of business. The District has not accrued a liability for any potential litigation against it because it does not meet the criteria to be considered a liability at June 30, 2018.

NOTE 10 – RISK MANAGEMENT

Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions. During fiscal year ending June 30, 2018, the District participated in the Southern California ReLiEF public entity risk pool for property and liability insurance coverage above the self-insured retention amounts of \$25,000 for liability claims and \$10,000 for property claims. 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.

Workers' Compensation

For fiscal year 2017-18, the District participated in the Santa Cruz/San Benito County Schools Insurance Group (SCSBCSIG), an insurance purchasing pool. The intent of SCSBCSIG is to achieve the benefit of a reduced premium for the District by virtue of its grouping representation with other participants in SCSBCSIG.

The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all districts in SCSBCSIG. Each participant pays its workers' compensation premium based on its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage. A participant will then either receive money from or be required to contribute to the "equity-pooling fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of SCSBCSIG. Participation in SCSBCSIG is limited to districts that can meet SCSBCSIG selection criteria. The firm of Keenan and Associates provides administrative, costs control and actuarial services to the insurance group.

Employee Medical Benefits

The District has contracted with the Self Insured Schools of California (SISC) to provide employee medical and surgical benefits for all employees. The entity is a shared risk pool comprised of school districts throughout the state. Rates are set through an annual calculation process. The District pays a monthly contribution to the entity, 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.

AROMAS-SAN JUAN UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 11 – PENSION PLANS

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

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

Pension Plan	Net Pension Liability	Deferred Outflows of Resources	Deferred Inflows of Resources	Pension Expense
CalSTRS	\$ 7,298,178	\$ 2,002,887	\$ 2,322,664	\$ 604,179
CalPERS	4,642,051	1,407,735	54,654	778,222
Total	<u>\$ 11,940,229</u>	<u>\$ 3,410,621</u>	<u>\$ 2,377,318</u>	<u>\$ 1,382,401</u>

The details of each plan are as follows:

A. California State Teachers' Retirement System (CalSTRS)

Plan Description

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

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

Benefits Provided

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

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

AROMAS-SAN JUAN UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 11 – PENSION PLANS (continued)

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

Benefits Provided (continued)

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

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

	STRP Defined Benefit Program	
	On or before December 31, 2012	On or after January 1, 2013
Hire Date	December 31, 2012	January 1, 2013
Benefit Formula	2% at 60	2% at 62
Benefit Vesting Schedule	5 years of service	5 years of service
Benefit Payments	Monthly for life	Monthly for life
Retirement Age	60	62
Monthly Benefits as a Percentage of Eligible Compensation	2.0%-2.4%	2.0%-2.4%
Required Employee Contribution Rate	10.25%	9.205%
Required Employer Contribution Rate	14.43%	14.43%
Required State Contribution Rate	9.328%	9.328%

Contributions

Required member District and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1% of applicable member earnings phased over a seven year period. The contribution rates for each plan for the year ended June 30, 2018, are presented above and the District's total contributions were \$623,825.

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

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

Total net pension liability, including State share:	
District's proportionate share of net pension liability	\$ 7,298,178
State's proportionate share of the net pension liability associated with the District	1,704,406
Total	<u>\$ 9,002,584</u>

AROMAS-SAN JUAN UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 11 – PENSION PLANS (continued)

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

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

The net pension liability was measured as of June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. The District's proportions of the net pension liability for the two most recent measurement periods were:

	Percentage Share of Risk Pool		Change Increase/ (Decrease)
	Fiscal Year Ending June 30, 2018	Fiscal Year Ending June 30, 2017	
Measurement Date	June 30, 2017	June 30, 2016	
Proportion of the Net Pension Liability	0.007892%	0.009000%	-0.001108%

For the year ended June 30, 2018, the District recognized pension expense of \$604,179. In addition, the District recognized pension expense and revenue of \$76,939 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	\$ 623,825	\$ -
Net change in proportionate share of net pension liability	-	2,001,000
Difference between projected and actual earnings on pension plan investments	-	194,371
Changes of assumptions	1,352,073	-
Differences between expected and actual experience in the measurement of the total pension liability	26,989	127,293
Total	\$ 2,002,887	\$ 2,322,664

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year. The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period. The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, changes of assumptions, and differences between expected and actual experience in the measurement of the total pension liability will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is 7 years.

AROMAS-SAN JUAN UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 11 – PENSION PLANS (continued)

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

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ (290,819)
2020	(6,957)
2021	(111,600)
2022	(301,946)
2023	(114,520)
Thereafter	(117,760)
Total	<u>\$ (943,602)</u>

Actuarial Methods and Assumptions

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

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Experience Study	July 1, 2010 through June 30, 2015
Actuarial Cost Method	Entry age normal
Investment Rate of Return	7.1%
Consumer Price of Inflation	2.75%
Wage Growth	3.5%

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best-estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant (Pension Consulting Alliance-PCA) as an input to the process. The actuarial investment rate of return assumption was adopted by the board in February 2017 in conjunction with the most recent experience study.

AROMAS-SAN JUAN UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 11 – PENSION PLANS (continued)

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

Actuarial Methods and Assumptions (continued)

For each future valuation, CalSTRS consulting actuary (Milliman) reviews the return assumption for reasonableness based on the most current capital market assumptions. Best estimates of 20-year geometrically-linked real rates of return and the assumed asset allocation for each major asset class for the year ended June 30, 2017, are summarized in the following table:

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

Discount Rate

The discount rate used to measure the total pension liability was 7.1%. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.1%) and assuming that contributions, benefit payments and administrative expense occurred midyear. Based on these assumptions, the STRP's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

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

Discount Rate	Net Pension Liability
1% decrease (6.10%)	\$ 10,716,042
Current discount rate (7.10%)	7,298,178
1% increase (8.10%)	4,524,349

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 \$351,108 (9.328% of annual payroll). Under accounting principles generally accepted in the United States of America, these amounts are reported as revenues and expenditures.

AROMAS-SAN JUAN UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 11 – PENSION PLANS (continued)

B. California Public Employees Retirement System (CalPERS)

Plan Description

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

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

Benefits Provided

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

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

	<u>School Employer Pool (CalPERS)</u>	
	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%	6.00%
Required Employer Contribution Rate	15.531%	15.531%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

AROMAS-SAN JUAN UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 11 – PENSION PLANS (continued)

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

Contributions (continued)

The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2018, are presented above and the total District contributions were \$399,327.

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

As of June 30, 2018, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$4,642,051. The net pension liability was measured as of June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportions of the net pension liability for the two most recent measurement periods were:

	<u>Percentage Share of Risk Pool</u>		<u>Change Increase/ (Decrease)</u>
	<u>Fiscal Year Ending June 30, 2018</u>	<u>Fiscal Year Ending June 30, 2017</u>	
Measurement Date	<u>June 30, 2017</u>	<u>June 30, 2016</u>	
Proportion of the Net Pension Liability	0.019445%	0.018300%	0.001145%

For the year ended June 30, 2018, the District recognized pension expense of \$778,222. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 399,327	\$ -
Net change in proportionate share of net pension liability	3,474	-
Difference between projected and actual earnings on pension plan investments	160,583	-
Changes of assumptions	678,045	54,654
Differences between expected and actual experience in the measurement of the total pension liability	<u>166,306</u>	<u>-</u>
Total	<u>\$ 1,407,735</u>	<u>\$ 54,654</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. The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, changes of assumptions, and differences between expected and actual experience in the measurement of the total pension liability will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is 4 years.

AROMAS-SAN JUAN UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 11 – PENSION PLANS (continued)

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

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

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ 242,963
2020	435,588
2021	316,106
2022	(40,903)
2023	-
Thereafter	-
Total	<u>\$ 953,754</u>

Actuarial Methods and Assumptions

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

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Experience Study	July 1, 1997 through June 30, 2011
Actuarial Cost Method	Entry age normal
Discount Rate	7.15%
Consumer Price of Inflation	2.75%
Wage Growth	Varies by entry age and service

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

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

AROMAS-SAN JUAN UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 11 – PENSION PLANS (continued)

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

Actuarial Methods and Assumptions (continued)

The target asset allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

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

Discount Rate

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

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

Discount Rate	Net Pension Liability
1% decrease (6.15%)	\$ 6,829,945
Current discount rate (7.15%)	4,642,051
1% increase (8.15%)	2,827,010

C. Social Security

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

D. Payables to the Pension Plans

At June 30, 2018, the District did not have any outstanding payables for outstanding contributions to the CalSTRS and CalPERS pension plans, respectively, required for the fiscal year ended June 30, 2018.

AROMAS-SAN JUAN UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2018

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS

A. General Information about the OPEB Plan

Plan administration and eligibility

The District offers retiree healthcare benefits, including medical, prescription drug, behavioral health, dental and vision insurance. The medical plans include five Blue Cross Prudent Buyer PPO options and Blue Cross plan HSA-B. Prescription drug coverage is provided through Navitus Drug Card plan "9-35", with behavioral benefits provided under the medical plans. Delta Dental and VSP vision insurance are also offered to both active employees and retirees of the District. All coverages are self-insured on a pooled basis or otherwise provided through the Self-Insured Schools of California (SISC).

Benefits provided

Certificated and Certificated Management employees who have attained age 60 and have completed at least 10 years of service with the District are eligible to retire and receive District-paid medical, prescription drug, behavioral, dental, and vision coverage, subject to caps of \$9,519 per year for single retirees and \$14,000 per year for retiree plus spouse. Employees with at least 10 years of service with the District as of July 1, 2004 may also achieve eligibility for retiree health benefits under a modified "rule of 75" schedule, with a minimum age of 55. District-paid benefits end at 65.

Classified and Classified Management employees follow the same rules as Certificated and Certificated Management, described above, except that (i) the alternate retirement schedule does not apply, and (ii) they must work at least 6 hours per day and be receiving benefits for a minimum of 5 years immediately preceding retirement to be eligible for retiree benefits.

Retirees not meeting the foregoing age and service requirements may elect to continue coverage under the District's health plans by self-paying all premiums.

Employees covered by benefit terms

At July 1, 2017, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefit payments	9
Active plan members	105
Total	114

Contributions

The District funds the plan on a pay-as-you-go basis and maintains reserves with the Self-Insured Schools of California (SISC) OPEB Trust. The Trust is an agent multiple-employer plan as defined in Governmental Accounting Standards Board (GASB) Statement No. 75 with pooled administrative and investment functions.

Medicare Premium Payment (MPP) Program

The Medicare Premium Payment Program is a cost-sharing multiple-employer other postemployment benefit plan established pursuant to Chapter 1032, Statutes of 2000 (SB 1435). CalSTRS administers the MPP Program, through the Teachers' Health Benefit Fund. The MPP Program pays Medicare Part A premiums and Medicare Parts A and B late enrollment surcharges for eligible members of the Defined Benefit Program who were retired or began receiving a disability allowance prior to July 1, 2012, and were not eligible for premium free Medicare Part A. The payments are made directly to the Centers for Medicare and Medicaid Services on a monthly basis.

AROMAS-SAN JUAN UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (continued)

B. Net OPEB Liability

The District's net OPEB liability for the District plan was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of July 1, 2017. The District's proportionate share of the net MPP Program OPEB liability was measured as of June 30, 2017, and was determined by an actuarial valuation as of June 30, 2016.

Actuarial assumptions

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

	District Plan	MPP Program
Valuation Date	July 1, 2017	June 30, 2016
Experience Study	N/A	July 1, 2010, through June 30, 2015
Salary increases	3.00% per annum	N/A
Investment rate of return	5.50 percent, net of OPEB plan investment expense	3.58 percent
Healthcare cost trend rates	6.00 percent for 2017; 5.00 percent for 2018 and later years	3.7 percent for Medicare Part A, and 4.1 percent for Medicare Part B

District Plan

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

Retirement and termination assumptions used were based on a review of plan experience and the best estimate of future plan experience.

MPP Program

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

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 the June 30, 2017, 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.

AROMAS-SAN JUAN UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (continued)

B. Net OPEB Liability (continued)

Discount Rate

District Plan

GASB 75 requires a discount rate that reflects the following:

a) The long-term expected rate of return on OPEB plan investments – to the extent that the OPEB plan’s fiduciary net position (if any) is projected to be sufficient to make projected benefit payments and assets are expected to be invested using a strategy to achieve that return;

b) A yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher – to the extent that the conditions in (a) are not met.

To determine a resulting single (blended) rate, the amount of the plan’s projected fiduciary net position (if any) and the amount of projected benefit payments is compared in each period of projected benefit payments. The discount rate used to measure the District’s Total OPEB liability is based on these requirements and the following information:

Reporting Date	Measurement Date	Long-Term Expected Return of Plan Investments (if any)	Municipal Bond 20-Year High Grade Rate Index	Discount Rate
June 30, 2018	June 30, 2017	5.50%	3.13%	5.50%

MPP Program

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

C. Changes in the Net OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balance at July 1, 2016	\$ 1,518,893	\$ 178,024	\$ 1,340,869
Changes for the year:			
Service cost	90,095	-	90,095
Interest	80,063	-	80,063
Employer contributions	-	133,773	(133,773)
Actual investment income	-	21,211	(21,211)
Administrative expense	-	(173)	173
Benefit payments	(128,130)	(128,130)	-
Net changes	42,028	26,681	15,347
Balance at June 30, 2017	\$ 1,560,921	\$ 204,705	1,356,216
District’s Proportionate Share of the Net MPP OPEB Liability			52,842
District’s Total Reported Net OPEB Liability			\$ 1,409,058

AROMAS-SAN JUAN UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (continued)

C. Changes in the Net OPEB Liability (continued)

Sensitivity of the total OPEB liability to changes in the discount rate

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

	1% Decrease 4.50%	Discount Rate 5.50%	1% Increase 6.50%
District Plan	\$ 1,448,930	\$ 1,356,216	\$ 1,269,775
	1% Decrease 2.58%	Discount Rate 3.58%	1% Increase 4.58%
MPP Program	\$ 58,500	\$ 52,842	\$ 47,339

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates

The following presents the net OPEB liability of the District, as well as what the District’s net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage-point lower or one percentage-point higher than the current healthcare cost trend rates:

	1% Decrease (5.0% decreasing to 4.0%)	Healthcare Cost Trend Rates (6.0% decreasing to 5.0%)	1% Increase (7.0% decreasing to 6.0%)
District Plan	\$ 1,249,991	\$ 1,356,216	\$ 1,475,466
	1% Decrease (2.7% Part A and 3.1% Part B)	Medicare Cost Trend Rates (3.7% Part A and 4.1% Part B)	1% Increase (4.7% Part A and 5.1% Part B)
MPP Program	\$ 47,751	\$ 52,842	\$ 57,882

OPEB plan fiduciary net position

Detailed information about the OPEB plan’s fiduciary net position is available in the separately issued SISC OPEB Trust financial report.

AROMAS-SAN JUAN UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (continued)

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

For the year ended June 30, 2018, the District recognized OPEB expense of \$163,797. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net differences between projected and actual earnings on OPEB plan investments	\$ -	\$ 7,276
District contributions subsequent to the measurement date of the net OPEB liability	<u>173,748</u>	<u>-</u>
Total	<u>\$ 173,748</u>	<u>\$ 7,276</u>

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

<u>Year Ended June 30:</u>	<u>Outflows/(Inflows) of Resources</u>
2019	\$ (1,819)
2020	(1,819)
2021	(1,819)
2022	(1,819)
2023	-
Thereafter	-

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Required Supplementary Information

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AROMAS-SAN JUAN UNIFIED SCHOOL DISTRICT
Budgetary Comparison Schedule – General Fund
For the Fiscal Year Ended June 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual (Budgetary Basis)</u>	<u>Variance with Final Budget - Pos (Neg)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
LCFF Sources	\$ 10,854,155	\$ 11,330,665	\$ 11,330,666	\$ 1
Federal Sources	616,811	767,332	595,975	(171,357)
Other State Sources	289,901	1,288,267	885,433	(402,834)
Other Local Sources	473,633	591,885	588,651	(3,234)
Total Revenues	<u>12,234,500</u>	<u>13,978,149</u>	<u>13,400,725</u>	<u>(577,424)</u>
Expenditures				
Current:				
Certificated Salaries	4,705,759	4,561,053	4,561,053	-
Classified Salaries	2,032,075	2,217,260	2,217,260	-
Employee Benefits	2,891,313	3,648,702	3,251,713	396,989
Books and Supplies	393,702	287,998	287,998	-
Services and Other Operating Expenditures	1,248,668	1,336,664	1,235,219	101,445
Capital Outlay	231,898	255,455	255,455	-
Other Outgo	959,503	813,048	805,453	7,595
Total Expenditures	<u>12,462,918</u>	<u>13,120,180</u>	<u>12,614,151</u>	<u>506,029</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(228,418)	857,969	786,574	(71,395)
Other Financing Sources and Uses				
Interfund Transfers Out	-	(509)	(509)	-
Net Changes in Fund Balances	<u>(228,418)</u>	<u>857,460</u>	<u>786,065</u>	<u>(71,395)</u>
Fund Balances, July 1, 2017	<u>3,792,034</u>	<u>3,792,034</u>	<u>3,792,034</u>	<u>-</u>
Fund Balances, June 30, 2018	<u>\$ 3,563,616</u>	<u>\$ 4,649,494</u>	<u>\$ 4,578,099</u>	<u>\$ (71,395)</u>

AROMAS-SAN JUAN UNIFIED SCHOOL DISTRICT
Schedule of Proportionate Share of the Net Pension Liability
For the Fiscal Year Ended June 30, 2018

	Last Ten Fiscal Years*			
	2017	2016	2015	2014
CalSTRS				
District's proportion of the net pension liability	0.0079%	0.0090%	0.0100%	0.0110%
District's proportionate share of the net pension liability	\$ 7,298,178	\$ 7,279,290	\$ 6,732,400	\$ 6,428,070
State's proportionate share of the net pension liability associated with the District	1,704,406	4,144,580	3,560,688	3,881,585
Totals	\$ 9,002,584	\$ 11,423,870	\$ 10,293,088	\$ 10,309,655
District's covered-employee payroll	\$ 4,190,954	\$ 4,455,965	\$ 4,440,214	\$ 5,698,824
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	174.14%	163.36%	151.62%	112.80%
Plan fiduciary net position as a percentage of the total pension liability	69%	70%	74%	77%
CalPERS				
District's proportion of the net pension liability	0.0194%	0.0183%	0.0193%	0.0196%
District's proportionate share of the net pension liability	\$ 4,642,051	\$ 3,614,261	\$ 1,884,173	\$ 2,172,391
District's covered-employee payroll	\$ 2,512,104	\$ 2,264,455	\$ 1,250,064	\$ 1,109,850
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	184.79%	159.61%	150.73%	195.74%
Plan fiduciary net position as a percentage of the total pension liability	72%	74%	79%	83%

Notes to Schedule:

Changes in Benefit Terms

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

Change of Assumptions and Methods

CalSTRS:

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

CalPERS:

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

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

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

AROMAS-SAN JUAN UNIFIED SCHOOL DISTRICT
Schedule of Pension Contributions
For the Fiscal Year Ended June 30, 2018

	Last Ten Fiscal Years*			
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
CalSTRS				
Contractually required contribution	\$ 623,825	\$ 527,222	\$ 478,125	\$ 394,291
Contributions in relation to the contractually required contribution	<u>623,825</u>	<u>527,222</u>	<u>478,125</u>	<u>394,291</u>
Contribution deficiency (excess):	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	<u>\$ 4,323,108</u>	<u>\$ 4,190,954</u>	<u>\$ 4,455,965</u>	<u>\$ 4,440,214</u>
Contributions as a percentage of covered-employee payroll	<u>14.43%</u>	<u>12.58%</u>	<u>10.73%</u>	<u>8.88%</u>
CalPERS				
Contractually required contribution	\$ 399,327	\$ 348,881	\$ 268,270	\$ 147,145
Contributions in relation to the contractually required contribution	<u>399,327</u>	<u>348,881</u>	<u>268,270</u>	<u>147,145</u>
Contribution deficiency (excess):	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	<u>\$ 2,571,161</u>	<u>\$ 2,512,104</u>	<u>\$ 2,264,455</u>	<u>\$ 1,250,064</u>
Contributions as a percentage of covered-employee payroll	<u>15.531%</u>	<u>13.888%</u>	<u>11.847%</u>	<u>11.771%</u>

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

AROMAS-SAN JUAN UNIFIED SCHOOL DISTRICT*Schedule of Changes in the District's Total OPEB Liability and Related Ratios
For the Fiscal Year Ended June 30, 2018*

	<u>2017</u>
Total OPEB liability	
Service cost	\$ 90,095
Interest	80,063
Benefit payments	(128,130)
Net change in total OPEB liability	42,028
Total OPEB liability - beginning	1,518,893
Total OPEB liability - ending	<u>\$ 1,560,921</u>
Plan fiduciary net position	
Contributions - employer	\$ 133,773
Net investment income	21,211
Benefit payments	(128,130)
Administrative expense	(173)
Net change in plan fiduciary net position	26,681
Plan fiduciary net position - beginning	178,024
Plan fiduciary net position - ending	<u>\$ 204,705</u>
District's net OPEB liability	<u>\$ 1,356,216</u>
Plan fiduciary net position as a percentage of the total OPEB liability	<u>13.11%</u>
Covered-employee payroll	<u>\$ 6,703,058</u>
District's net OPEB liability as a percentage of covered-employee payroll	<u>20.23%</u>

Notes to Schedule:

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

AROMAS-SAN JUAN UNIFIED SCHOOL DISTRICT*Schedule of Changes in the District's Total OPEB Liability and Related Ratios – MPP Program
For the Fiscal Year Ended June 30, 2018**(Dollars in Thousands, except for District's proportionate share)*

	2017
Total OPEB liability	
Interest	\$ 12,928
Differences between expected and actual experience	(41)
Changes of assumptions	(31,240)
Benefit payments, including refunds of member contributions	(28,929)
Net change in total OPEB liability	(47,282)
Total OPEB liability - beginning	468,031
Total OPEB liability - ending	\$ 420,749
Plan fiduciary net position	
Contributions - employer	\$ 29,117
Net investment income	11
Premiums paid	(28,929)
Administrative expense	(168)
Net change in plan fiduciary net position	31
Plan fiduciary net position - beginning	10
Plan fiduciary net position - ending	\$ 41
Net OPEB liability	\$ 420,708
District's proportionate share of net OPEB liability	\$ 52,842
Plan fiduciary net position as a percentage of the total OPEB liability	0.01%
Covered-employee payroll	N/A
District's net OPEB liability as a percentage of covered-employee payroll	N/A

Notes to Schedule:

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

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

AROMAS-SAN JUAN UNIFIED SCHOOL DISTRICT
Notes to the Required Supplementary Information
For the Fiscal Year Ended June 30, 2018

NOTE 1 – PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

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

Schedule of Proportionate Share of the Net Pension Liability

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

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

Schedule of Pension Contributions

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

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

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

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

NOTE 2 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

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

Supplementary Information

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AROMAS-SAN JUAN UNIFIED SCHOOL DISTRICT
Local Educational Agency Organization Structure
June 30, 2018

The Aromas - San Juan Unified School District was established July 1, 1991 and consists of an area comprising approximately 65 square miles. The District operates two preschools, two elementary schools, and one high school. There were no boundary changes during the year.

BOARD OF TRUSTEES		
Member	Office	Term Expires
Drew McAlister	President	2020
Jose Flores	Clerk	2018
Jennifer Colby, Ph.D.	Member	2020
Monica Martinez-Guaracha	Member	2020
Jeffrey Hancock	Member	2018

DISTRICT ADMINISTRATORS

Michele Huntoon,
Superintendent

Mariana Solomon,
Business Manager

AROMAS-SAN JUAN UNIFIED SCHOOL DISTRICT
Schedule of Average Daily Attendance
For the Fiscal Year Ended June 30, 2018

	Second Period Report	Annual Report
	Certificate No. (9D57961A)	Certificate No. (E99E15BD)
Regular ADA & Extended Year:		
Transitional Kindergarten through Third	309.66	309.80
Fourth through Sixth	239.94	238.78
Seventh through Eighth	161.82	162.17
Ninth through Twelfth	341.47	339.96
	<hr/>	<hr/>
Total ADA	<u>1,052.89</u>	<u>1,050.71</u>

AROMAS-SAN JUAN UNIFIED SCHOOL DISTRICT
Schedule of Instructional Time
For the Fiscal Year Ended June 30, 2018

<u>Grade Level</u>	<u>Required</u>	<u>2017-18 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Status</u>
Kindergarten	36,000	43,317	180	Complied
Grade 1	50,400	54,354	180	Complied
Grade 2	50,400	54,354	180	Complied
Grade 3	50,400	54,354	180	Complied
Grade 4	54,000	54,354	180	Complied
Grade 5	54,000	54,354	180	Complied
Grade 6	54,000	54,354	180	Complied
Grade 7	54,000	54,354	180	Complied
Grade 8	54,000	54,354	180	Complied
Grade 9	64,800	64,865	180	Complied
Grade 10	64,800	64,865	180	Complied
Grade 11	64,800	64,865	180	Complied
Grade 12	64,800	64,865	180	Complied

AROMAS-SAN JUAN UNIFIED SCHOOL DISTRICT
Schedule of Financial Trends and Analysis
For the Fiscal Year Ended June 30, 2018

General Fund	(Budget) 2019 ²	2018	2017	2016
Revenues and other financing sources	\$ 13,904,820	\$ 13,400,725	\$ 12,887,120	\$ 13,414,604
Total outgo	13,554,602	12,614,660	12,119,598	12,633,162
Change in fund balance (deficit)	350,218	786,065	767,522	781,442
Ending fund balance	\$ 4,928,317	\$ 4,578,099	\$ 3,792,034	\$ 3,024,512
Available reserves ¹	\$ 1,576,908	\$ 1,688,750	\$ 1,611,506	\$ 511,695
Available reserves as a percentage of total outgo	11.6%	13.4%	13.3%	4.1%
Total long-term debt	\$ 33,485,037	\$ 33,436,935	\$ 31,419,214	\$ 29,738,556
Average daily attendance at P-2	1,056	1,053	1,070	1,107

The General Fund balance has increased by \$1,553,587 over the past two years. The fiscal year 2018-19 adopted budget projects an increase of \$350,218. For a district of this size, the state recommends available reserves of at least 3% of total general fund expenditures, transfers out, and other uses (total outgo).

The District has incurred an operating surplus in all of the past three years, and it anticipates incurring an operating surplus during the 2018-19 fiscal year. Long-term debt has increased by \$3,698,379 over the past two years.

Average daily attendance has decreased by 54 over the past two years. An increase of 3 ADA is anticipated during fiscal year 2018-19.

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

² Revised Final Budget September, 2018.

AROMAS-SAN JUAN UNIFIED SCHOOL DISTRICT

*Reconciliation of Annual Financial and Budget Report with Audited Financial Statements
For the Fiscal Year Ended June 30, 2018*

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

AROMAS-SAN JUAN UNIFIED SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2018

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Cluster Expenditures	Federal Expenditures
Federal Programs:				
U.S. Department of Agriculture:				
Passed through California Dept. of Education (CDE):				
Child Nutrition Cluster				
School Breakfast Program - Especially Needy	10.553	13526	\$ 102,137	
National School Lunch Program	10.555	13523	313,402	
USDA Donated Foods	10.555	N/A	<u>37,672</u>	
Subtotal Child Nutrition Cluster				<u>\$ 453,211</u>
Total U.S. Department of Agriculture				<u>453,211</u>
U.S. Department of Education:				
Passed through CDE:				
Every Student Succeeds Act (ESSA):				
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329		159,490
Migrant Education Cluster:				
Title I, Part C, Migrant Ed	84.011	14838	195,371	
Title I, Migrant Ed Summer Program	84.011	10005	18,537	
Title I, Part C, Migrant Education School Readiness Program	84.011	14768	<u>5,020</u>	
Subtotal, Migrant Education Cluster				218,928
English Language Acquisition Grants Cluster:				
Title III, Immigrant Education Program	84.365	15146	1,662	
Title III, Limited English Proficient Student Program	84.365	14346	<u>19,534</u>	
Subtotal, English Language Acquisition Grants Cluster				21,196
Special Education Cluster (IDEA):				
Passed through San Benito County SELPA:				
Basic Local Assistance Entitlement, Part B	84.027	13379		<u>187,178</u>
Total U.S. Department of Education				<u>586,792</u>
U.S. Department of Health & Human Services:				
Passed through California Dept. of Education:				
Medi-Cal Billing Option	93.778	10013		<u>1,148</u>
Total U.S. Department of Health & Human Services				<u>1,148</u>
Total Expenditures of Federal Awards				<u><u>\$ 1,041,151</u></u>

Of the amounts reported above, the District provided no awards to subrecipients.

AROMAS-SAN JUAN UNIFIED SCHOOL DISTRICT

Note to the Supplementary Information

June 30, 2018

NOTE 1 – PURPOSE OF SCHEDULES

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

The District has participated in the Incentives for Longer Instructional Day and Longer Instructional Year. The District has not met its target funding. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of Education Code Sections 46200 through 46206.

Schedule of Financial Trends and Analysis

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

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

Schedule of Expenditures of Federal Awards

The schedule of expenditures of Federal awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements. The District did not elect to use the ten percent de minimis indirect cost rate.

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

	<u>CFDA Number</u>	<u>Amount</u>
Total Federal Revenues from the Statement of Revenues, Expenditures, and Changes in Fund Balances		\$ 1,049,186
Difference between Federal Revenues and Expenditures:		
Title I, Part C, Migrant Education School Readiness Program	84.011	(60)
Medi-Cal Billing Option	93.778	(7,849)
Medi-Cal Administrative Activities	93.778	<u>(126)</u>
Total Schedule of Expenditures of Federal Awards		<u>\$ 1,041,151</u>

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Other Independent Auditors' Reports

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

Board of Trustees
Aromas-San Juan Unified School District
San Juan Bautista, 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 Aromas-San Juan Unified School District as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Aromas-San Juan Unified School District's basic financial statements, and have issued our report thereon dated November 21, 2018.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as Finding 2018-001 to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as Finding 2018-002 to be a significant deficiency.

Compliance and Other Matters

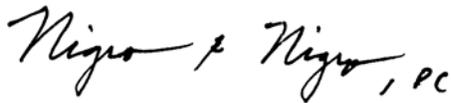
As part of obtaining reasonable assurance about whether Aromas-San Juan Unified School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could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

Aromas-San Juan Unified School District's Responses to Findings

Aromas-San Juan Unified School District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Aromas-San Juan Unified School District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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.

A handwritten signature in cursive script that reads "Nigro & Nigro, PC".

Murrieta, California
November 21, 2018



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Board of Trustees
Aromas-San Juan Unified School District
San Juan Bautista, California

Report on State Compliance

We have audited Aromas-San Juan Unified School District's compliance with the types of compliance requirements described in the 2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting that could have a direct and material effect on each of the Aromas-San Juan Unified School District's state government programs as noted on the following page for the fiscal year ended June 30, 2018.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Aromas-San Juan Unified School District's state programs based on our audit of the types of compliance requirements referred to on the following page. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the 2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to on the following page that could have a direct and material effect on a state program occurred. An audit includes examining, on a test basis, evidence about Aromas-San Juan Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

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

Table with 2 columns: Description, Procedures Performed. Rows include: Local Education Agencies Other Than Charter Schools: Attendance (Yes), Teacher Certification and Misassignments (Yes), Kindergarten Continuance (Yes), Independent Study (Not Applicable), Continuation Education (Not Applicable), Instructional Time (Yes), Instructional Materials (Yes), Ratio of Administrative Employees to Teachers (Yes).

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

Unmodified Opinion on Compliance with State Programs

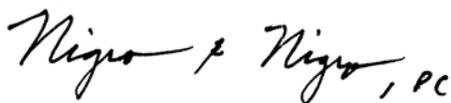
In our opinion, Aromas-San Juan Unified School District complied, in all material respects, with the types of compliance requirements referred to above for the year ended June 30, 2018.

Other Matter

The results of our auditing procedures disclosed an instance of noncompliance with the compliance requirements referred to previously, which is required to be reported in accordance with the *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, and which is described in the accompanying schedule of findings and questioned costs as Finding 2018-003. Our opinion on each state program is not modified with respect to these matters.

District's Response to Finding

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



Murrieta, California
November 21, 2018



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

Board of Trustees
Aromas-San Juan Unified School District
San Juan Bautista, California

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

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

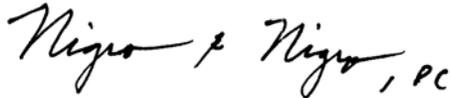
Report on Internal Control Over Compliance

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

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

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

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



Murrieta, California
November 21, 2018

Findings and Questioned Costs

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AROMAS-SAN JUAN UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2018

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditor's report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>Yes</u>
Significant deficiency(s) identified not considered to be material weaknesses?	<u>Yes</u>
Noncompliance material to financial statements noted?	<u>No</u>

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(s) identified not considered to be material weaknesses?	<u>None reported</u>
Type of auditor's report issued on compliance for major programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance Section 200.516?	<u>No</u>
Identification of major programs:	
<u>CFDA Numbers</u> <u>Name of Federal Program or Cluster</u>	
10.533, 10.555 Child Nutrition Cluster	
Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 750,000</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

State Awards

Type of auditor's report issued on compliance for state programs:	<u>Unmodified</u>
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AROMAS-SAN JUAN UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2018

SECTION II - FINANCIAL STATEMENT FINDINGS

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

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

Finding 2018-001: Capital Assets Accounting (20000)

This finding is a repeat of Finding 2017-001.

Criteria: Capital assets represent one of the largest investments of the District; control and accountability are of significant concern. Generally accepted accounting principles (GAAP), Education Code Section 35168, and District Board Policy require the District to maintain records that properly account for capital assets.

Condition: The District did not track capital asset additions or disposals for 2017-18 and the associated depreciation expense in a manner that provided a clear audit trail. The District's depreciation expense had to be estimated by the auditor, since no one in the District performed a calculation.

Questioned Cost: None

Context: The need for data on capital assets is an important aspect to the District.

Cause: There is no District employee assigned to maintaining capital asset records.

Effect: Capital asset records serve as a management tool and have an important bearing on management decisions, such as long-range acquisition and abandonment projections.

Recommendation: We recommend that the District contract with a fixed assets specialist to perform a full physical inventory of all District assets, including all construction projects, improvements, equipment and accumulated depreciation. Then the District needs to assign an accounting department employee the responsibility to maintain the capital assets listing on a regular basis.

AROMAS-SAN JUAN UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2018

SECTION II - FINANCIAL STATEMENT FINDINGS (continued)

Finding 2018-001: Capital Assets Accounting (20000) (continued)

Views of Responsible Officials: The District agrees with this finding, particularly as it relates to internal controls and the safeguarding of our assets. The District is implementing a plan of action to include a systemic internal process for inventory to be used once an evaluation by an outside vendor has completed. The District will utilize the inventory module within its financial system to maintain inventory going forward.

Finding 2018-002: Payroll and Benefits Not Reconciled (30000)

This finding is a repeat of Finding 2017-003.

Criteria: Payroll and health and welfare benefits provided to employees of the District are a significant portion of the District's budget. These costs should be closely monitored on a regular basis to ensure that the District pays only for eligible employees, retirees, and dependents. The District should be reconciling payroll and benefits payable accounts on a regular (at least monthly) basis.

Condition: The District cannot currently substantiate the balance of several payable accounts as there are entries made by the County and no employee is entirely certain how the accounts balance out. The District also does not include a review of any changes in dependents, marital status, or any other factors in the monthly review of the benefit invoices.

Questioned Cost: None

Context: This is a recurring problem for the District.

Cause: There are entries made by the County and no employee is entirely certain how the accounts balance out.

Effect: This could result in inaccurate reporting for employees, which could cause the District to be charged incorrectly for benefit expenses.

Recommendation: We recommend that the District conduct an annual review of health and welfare benefits to ensure that only eligible employees and their dependents are covered. The District should also continue to monitor the monthly invoices for changes in employment status, marital status, or other dependent changes.

Views of Responsible Officials: The District will implement a monthly process of reconciling benefits. The Business Manager will review all payroll accounts January 2019, and work with the SBCOE to establish a reconciliation process that correlates with the County.

AROMAS-SAN JUAN UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2018

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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

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

AROMAS-SAN JUAN UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2018

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

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

Finding 2018-003: School Accountability Report Card (72000)

Criteria: In accordance with Education Code §33126, the school is to provide an accountability report card to include safety, cleanliness, and adequacy of school facilities, to include any needed maintenance to ensure good repair. The condition reported should be supported by the school's Facilities Inspection Tool (FIT), School Facilities Condition Evaluation as required by Ed Code §17002. In addition, according to Education Code §35256, the governing board must publish the School Accountability Report Card (SARC) for each school by February 1st of each year.

Condition: It was noted that the School Facility Repair Status on the SARC for San Juan School did not match the FIT form. The SARC noted a status of "Good" on the External category. The corresponding FIT form was noted with a "Fair" rating.

Questioned Cost: None

Context: The error was noted for both of the selected schools.

Cause: The District was not able to provide support for the School Facilities Condition Evaluation.

Effect: Without proper compliance, the public may be misinformed on the school's facilities.

Recommendation: We recommend that an employee verify the information presented in the SARC. This information is essential to present the image of the school fairly to the public.

Views of Responsible Officials: The District will adjust the current review process to ensure that all documentation provided in the SARC agrees to the original resource documentation via a third review.

AROMAS-SAN JUAN UNIFIED SCHOOL DISTRICT

Summary Schedule of Prior Audit Findings

For the Fiscal Year Ended June 30, 2018

Original Finding No.	Finding	Code	Recommendation	Current Status
<p><i>Finding 2017-001: Capital Assets Accounting</i></p>	<p>This finding is a repeat of Finding 2016-001.</p> <p>Capital assets represent one of the largest investments of the District; control and accountability are of significant concern. Generally accepted accounting principles (GAAP), Education Code Section 35168, and District Board Policy require the District to maintain records that properly account for capital assets. Capital asset records serve as a management tool and have an important bearing on management decisions, such as long-range acquisition and abandonment projections. The need for data on capital assets is an important aspect to the District.</p> <p>The District did not track capital asset additions or disposals for 2016-17 and the associated depreciation expense in a manner that provided a clear audit trail. The District's depreciation expense had to be estimated by the auditor, since no one in the District performed a calculation.</p>	20000	<p>We recommend that the District contract with a fixed assets specialist to perform a full physical inventory of all District assets, including all construction projects, improvements, equipment and accumulated depreciation. Then the District needs to assign an accounting department employee the responsibility to maintain the capital assets listing on a regular basis.</p>	<p>Not Implemented; See Finding 2018-001.</p>
<p><i>Finding 2017-002: Lack of Segregation of Duties</i></p>	<p>This finding is a repeat of Finding 2016-002.</p> <p>An LEA's system of internal controls should be designed to ensure that financial transactions are properly recorded in the accounting records. Segregation of duties strengthens the system of internal controls by separating the duties by requiring different employees to have physical custody, authorization ability, and recordkeeping duties. Due to the small size of the District, one employee handles all of the cash receipting, accounts payable, purchasing and payroll functions. Furthermore, there was a vacancy in the Business Manager position for a part of the school year.</p>	30000	<p>We recommend that the District utilize the new Business Manager to implement segregation of duties by assigning different employees to approve purchases, receive ordered materials, approve invoices for payment, review and reconcile financial records. The District should also assign different employees to receive cash and checks, make deposits, review and reconcile accounts receivable records and bank statements.</p>	<p>Implemented.</p>

AROMAS-SAN JUAN UNIFIED SCHOOL DISTRICT

Summary Schedule of Prior Audit Findings

For the Fiscal Year Ended June 30, 2018

Original Finding No.	Finding	Code	Recommendation	Current Status
Finding 2017-003: Benefits Not Reconciled	<p>This finding is a repeat of Finding 2016-003.</p> <p>Health and welfare benefits provided to employees of the District are a significant portion of the District's budget. These costs should be closely monitored on a regular basis to ensure that the District pays only for eligible employees, retirees, and dependents. The District currently does not include a review of any changes in dependents, marital status, or any other factors in the monthly review of the benefit invoices. This could result in inaccurate reporting for employees, which could cause the District to be charged incorrectly for benefit expenses.</p>	30000	We recommend that the District conduct an annual review of health and welfare benefits to ensure that only eligible employees and their dependents are covered. The District should also continue to monitor the monthly invoices for changes in employment status, marital status, or other dependent changes.	Not Implemented; See Finding 2018-002.
Finding 2017-004: CALPADS Unduplicated Pupil Count	<p>Supplemental and concentration grant amounts are calculated based on the percentage of "unduplicated pupils" enrolled in the LEA on Census Day (first Wednesday in October). The percentage equals:</p> <ul style="list-style-type: none"> • Unduplicated count of pupils who (1) are English learners, (2) meet income or categorical eligibility requirements for free or reduced-price meals under the National School Lunch Program, or (3) are foster youth. "Unduplicated count" means that each pupil is counted only once even if the pupil meets more than one of these criteria (<i>EC</i> sections 2574(b)(2) and 42238.02(b)(1)). • Divided by total enrollment in the LEA (<i>EC</i> sections 2574(b)(1) and 42238.02(b)(5)). All pupil counts are based on Fall 1 certified enrollment reported in the CALPADS as of Census Day. 	40000	We recommend that the District implement a procedure to review the CALPADS information prior to the reports submission to the California Department of Education.	Implemented.

AROMAS-SAN JUAN UNIFIED SCHOOL DISTRICT

Summary Schedule of Prior Audit Findings

For the Fiscal Year Ended June 30, 2018

Original Finding No.	Finding	Code	Recommendation	Current Status
<i>Finding 2017-004: CALPADS Unduplicated Pupil Count (continued)</i>	During our testing of the Free and Reduced Price Meal (FRPM) eligible students reported in the CALPADS 1.17 and 1.18 reports, we noted one student who was classified as free or reduced, but whose applications indicated that they should have been classified as paid.			
<i>Finding 2017-005: Attendance</i>	<p>Education Code section 46200 requires LEAs to offer 180 days of instruction.</p> <p>The District operated classes for nine school days after Winter Break on the high school campus, but the classes offered did not appear to be regular instructional classes. The classes in question were for: art and nature, dance, Pinterest, game theory and design, film as literature, internship, and others. The internship class included students, in some cases, making copies for teachers. While the school principal claimed that the classes were either a discrete unit of or an extension of regular high school courses, it was noted that students received three credits for the courses. If a student received three credits for a course of only nine days, this would be in addition to the five credits received for a year-long course. Furthermore, there was no class syllabus and no evidence that the Board had approved these courses.</p>	40000	We recommend that the District administration work with the governing board to determine whether these courses are valid instructional offerings. If they are deemed to be valid instructional offerings, then documentation should be maintained to support this claim, such as a class syllabus.	Implemented.
<i>Finding 2017-006: School Accountability Report Card</i>	In accordance with Education Code §33126, the school is to provide an accountability report card to include safety, cleanliness, and adequacy of school facilities, to include any needed maintenance to ensure good repair. The condition reported should be supported by the school's Facilities Inspection Tool (FIT), School Facilities Condition Evaluation as required by Ed Code §17002.	72000	We recommend that an employee verify the information presented in the SARC. This information is essential to present the image of the school fairly to the public.	Not Implemented; See Finding 2018-003.

AROMAS-SAN JUAN UNIFIED SCHOOL DISTRICT

Summary Schedule of Prior Audit Findings

For the Fiscal Year Ended June 30, 2018

Original Finding No.	Finding	Code	Recommendation	Current Status
<i>Finding 2017-006: School Accountability Report Card (continued)</i>	<p>In addition, according to Education Code §35256, the governing board must publish the School Accountability Report Card (SARC) for each school by February 1st of each year.</p> <p>It was noted that the School Facility Repair Status on the SARC for Aromas School and Anzar High School did not match the FIT form. For both schools, the SARCs were noted with "Good" repair statuses. The corresponding FIT forms were both noted with "Fair" ratings.</p>			

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To the Board of Trustees
Aromas-San Juan Unified School District
San Juan Bautista, California

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

However, during our audit we noted matters that are an opportunity for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated November 21, 2018 on the financial statements of Aromas-San Juan Unified School District.

ASSOCIATED STUDENT BODY (ASB) FUNDS

Observation: During our cash disbursement testing, we noted that five of ten disbursements selected in our sample were not approved by the District representative, the ASB advisor, and/or the student representative until after the expenditure had already been incurred. Education Code Section 48933(b) requires all expenditures from ASB funds be authorized by a student representative, an advisor, and a district representative (usually a principal or vice-principal) prior to disbursing the funds.

Recommendation: As a “best practice”, approval by required parties should be obtained before the actual commitment to purchase the items in order to ensure the expense is a proper use of student-body funds and falls within budgetary guidelines.

Observation: In our testing of cash receipts, we found that five of the ten deposits tested lacked sufficient supporting documentation. In each of the noted instances, the deposit was missing supporting documentation for the cash portion of the deposit. Without supporting documentation, we could not verify whether all cash collected had been deposited intact and into the correct ASB account.

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

ASSOCIATED STUDENT BODY (ASB) FUNDS (continued)

Observation: During our review of the meeting minutes we found that the minutes were inadequate.

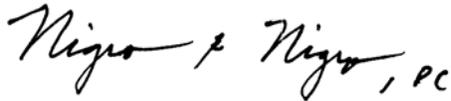
Recommendation: Meeting minutes are an imperative record of operations and provide vital evidence in the event of fraud, improper spending, and accusations of improper club administration. Items that were lacking and need to be included in the ASB meeting minutes include: date and time of next meeting, a list of any unfinished business, time of adjournment, and who prepared the minutes. We recommend that the site emphasize the importance of complete minutes and perhaps utilize the sample templates which are available in the FCMAT ASB Accounting Manual.

DISTRICT OFFICE

Observation: Through inquiry, we noted that there is no approval process for the addition or removal of vendors at the District. There is also no periodic review of vendors added or removed from the District's vendor list. This could cause the District to use a vendor that would create a conflict of interest. It also creates a risk for employees to set up phantom vendors to perpetrate fraud.

Recommendation: We recommend implementing an approval process for all additions and removals of vendors in the District's purchasing system. The District should also do a periodic review of vendors added into the system.

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



Murrieta, California
November 21, 2018