VALLECITOS SCHOOL DISTRICT
COUNTY OF SAN DIEGO
FALLBROOK, CALIFORNIA

AUDIT REPORT

JUNE 30, 2017

Wilkinson Hadley King & Co. LLP
CPA's and Advisors
218 W. Douglas Ave
El Cajon, CA 92020

Introductory Section

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Audit Report
For The Year Ended June 30, 2017

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Financial Section

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Brian K. Hadley, CPA

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Independent Auditor's Report

To the Board of Trustees
Vallecitos School District
Fallbrook, California 92028

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Vallecitos School District ("the District") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 District'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 District'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 Vallecitos School District as of June 30, 2017, and the respective changes in financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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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 the District's proportionate share of the net pension liability and schedule of District pension contributions identified as Required Supplementary Information in the table of contents 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 Vallecitos School District's basic financial statements. The combining financial statements are presented for purposes of additional analysis and are not required parts of the basic financial statements. The accompanying other supplementary information is presented for purposes of additional analysis as required by the State's audit guide, *2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* prescribed in Title 5, *California Code of Regulations,* Section 19810 and is also not a required part of the basic financial statements.

The combining financial statements and other supplementary information 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 combining financial statements and other supplementary information are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2017 on our consideration of Vallecitos School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 Vallecitos School District's internal control over financial reporting and compliance.

Wilkinson Hadley King & Co., LLP

El Cajon, California
December 8, 2017

As management of the Vallecitos School District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 3, 2017. We encourage readers to consider the information presented here in conjunction with the District's basic financial statements, which begin immediately following this analysis. This annual financial report consists of two main parts (1) Management's Discussion and Analysis, (2) Basic Financial Statements, and (3) Required Supplementary Information.

These financial statements consist of a series of financial statements prepared in accordance with the Governmental Accounting Standards Board Statement No. 34. *Basic Financial Statements – Management Discussion and Analysis for the State and Local Governments.*

FINANCIAL HIGHLIGHTS

- The change in net position for the year was an increase of $117,585.
- The District had an excess of revenue over expenditures in the General Fund (before transfers) in the amount of $189,886 in the current year compared $144,552 in the previous year.
- This year the District had no additions to capital assets.
- The District's General Fund Budget for this year showed an excess of revenues over expenditures (before transfers) of $187,216 compared to the actual amount of an excess of revenues over expenditures (before transfers) of $189,886.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements.

Basic Financial Statements

The basic financial statements include government-wide financial statements and fund statements. The two sets of statements are tied together by reconciliation showing why they differ.

The District as a whole is reported in the government-wide statements and uses accounting methods similar to those used by companies in the private sector.

OVERVIEW OF FINANCIAL STATEMENTS (continued)

Basic Financial Statements (continued)

More detailed information about the District's most significant funds, not the District as a whole, is provided in the fund financial statements. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

The *Statement of Net Position,* a government-wide statement, presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *Statement of Activities*, a government-wide statement, presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The *Balance Sheet* for governmental funds presents financial information by fund types showing money left at year-end available for spending.

The *Statement of Revenues, Expenditures and Changes* in Fund Balances for all governmental fund types focuses on how money flows into and out of the various funds.

The *Notes to the Basic Financial Statements* are included to provide more detailed data and explain some of the information in the statements.

The *Required Supplementary Information* provides a budgetary comparison of each major fund and the schedules relating to the net pension liabilities.

The *Supplementary Information* gives an overview of the operations of the District, governing body and budgetary comparisons of the non-major funds.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Position

To begin our analysis, a summary of the District's Statement of Net Position is presented in Table 1 below for the current year and the prior year.

Net position may serve over time, as a useful indicator of a government's financial position. In the case of the District, liabilities exceeded assets by ($679,784) as of June 30, 2017. (This has decreased over last year's net position primarily due to the correction of an error in the implementation of GASB Statement No. 68 resulting in a restatement of the beginning net position.)

A large portion of the District's net position reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture, and equipment.); less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its constituents; consequently, these assets are not available for future spending.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and disposal of capital assets, and the depreciation of capital assets.

TABLE 1
Condensed Statement of Net Position

	2017	2016	$ Change	% Change
ASSETS				
Current and other assets	1,385,609	928,459	457,150	49.2%
Capital assets, net of depreciation	226,360	266,294	(39,934)	-15.0%
TOTAL ASSETS	1,611,969	1,194,753	417,216	34.9%
DEFERRED OUTFLOWS OF RESOURCES	335,192	301,381	33,811	11.2%

GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)

Statement of Net Position (continued)

TABLE 1
Condensed Statement of Net Position (continued)

	2017	2016	$ Change	% Change
LIABILITIES				
Current Liabilities	406,231	116,920	289,311	247.4%
General long-terim debt	2,122,980	2,618,160	(495,180)	-18.9%
TOTAL LIABILITIES	2,529,211	2,735,080	(205,869)	-7.5%
DEFERRED INFLOWS OF RESOURCES	97,735	102,596	(4,861)	-4.7%
NET POSITION				
Net investment in capital assets	198,463	266,294	(67,831)	-25.5%
Restricted	165,653	150,473	15,180	10.1%
Unrestricted	(1,043,900)	(1,758,309)	714,409	-40.6%
TOTAL NET POSITION	(679,784)	(1,341,542)	661,758	-49.3%

Statement of Activities

- The District's total revenues for the fiscal year ended June 30, 2017, excluding inter-fund transfers, increased by $171,683. This was due primarily to increased local services provided.

- The District's total expenses increased by $425,613.

- The District's net position was ($679,784), which includes a prior period adjustment of $779,343 resulting from a correction of an error in recording the District's pension liability.

GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)

Statement of Activities (continued)

The following table presents a summary of the Statement of Activities for the fiscal year ended June 30, 2017, and June 30, 2016:

TABLE 2
Condensed Statement of Activities

	2017	2016	$ Change	% Change
REVENUES				
Program revenues	741,989	705,728	36,261	5.1%
General revenues	2,231,884	2,060,201	171,683	8.3%
TOTAL REVENUES	2,973,873	2,765,929	207,944	13.5%
FUNCTIONAL EXPENSES				
Instruction	2,189,451	1,949,528	239,923	12.3%
Instruction-related services	311,199	268,209	42,990	16.0%
Pupil services	26,278	45,768	(19,490)	-42.6%
Ancillary services	2,250	2,955	(705)	-23.9%
Community services	-	2,000	(2,000)	-100.0%
General administration	272,811	211,987	60,824	28.7%
Plan services	289,469	149,755	139,714	93.3%
Depreciation (unallocated)	-	35,643	(35,643)	-100.0%
TOTAL EXPENSES	3,091,458	2,665,845	425,613	16.0%
CHANGE IN NET POSITION	(117,585)	100,084	(217,669)	-217.5%
NET POSITION - BEGINNING	(1,341,542)	(1,441,626)	100,084	-6.9%
Prior Period Adjustment	779,343	-	779,343	
NET POSITION - ENDING	(679,784)	(1,341,542)	661,758	-49.3%

GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)

Significant Changes in Individual Funds

TABLE 3
Individual Fund Balances

	2017	2016	$ Change	% Change
General Fund	$ 952,716	$ 762,831	$ 189,885	24.9%
Child Development Fund	3,929	5,375	(1,446)	-26.9%
Capital Facilities Fund	22,733	43,333	(20,600)	-47.5%
Total Fund Balances	979,378	811,539	167,839	20.7%

General Fund Budgetary Highlights

General Fund Budgetary Highlights

	Budgeted	Actual	Variance
Certificated salaries	$ 1,193,797	$ 1,193,797	$ -
Classified salaries	306,451	306,449	2
Employee benefits	473,378	473,120	258
Services & other oper expenditures	600,579	600,514	65

The District's total budget for the General Fund Budget for this year showed an excess of revenues over expenditures (before transfers) of $187,216 compared to the actual amount of $189,115. The District's financial results were over the adopted budget by $1,899.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

There were no significant increases to capital assets during the year.

TABLE 4
Changes in Capital Assets

	2017	2016	$ Change	% Change
Land	$ 6,161	$ 6,161	$ -	0.0%
Buildings	902,421	902,421	-	0.0%
Land improvements	28,067	28,067	-	0.0%
Equipment	253,951	253,931	20	0.0%
Less: accumulated depreciation	(964,240)	(924,286)	(39,954)	4.3%
Total capital assets, net of depreciation	226,360	266,294	(39,934)	-15.0%

Long-Term Liabilities

TABLE 5
Changes in Long-Term Liabilities

	2017	2016	$ Change	% Change
Net pension liability	$ 2,122,980	$ 1,749,518	$ 373,462	21.3%
Total long-term debt	2,122,980	1,749,518	373,462	21.3%

FACTORS BEARING ON THE DISTRICT'S FUTURE

The District's outlook for future years is tied to growth and the Local Control Funding Formula (LCFF) allocation. As with many other Districts, the District is facing the challenge of covering step and column increases in employee salaries as well as increases in STRS and PERS contribution rates, along with other fixed costs.

CONTACTING THE DISTRICT

This financial report is designed to provide our citizens, taxpayers and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions regarding this report, please direct them to Linda Miller, Business Manager at (760) 728-7092, or by mail at 5211 Fifth Street, Fallbrook CA 92028.

Basic Financial Statements

VALLECITOS SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2017

	Governmental Activities
ASSETS	
Cash	$ 1,007,609
Receivables	378,000
Capital Assets:	
Land	6,161
Improvements	28,067
Buildings	902,422
Equipment	253,951
Less Accumulated Depreciation	(964,240)
Total Assets	1,611,970
DEFERRED OUTFLOWS OF RESOURCES	335,192
LIABILITIES	
Accounts Payable and Other Current Liabilities	406,231
Long-Term Liabilities:	
Due Within One Year	--
Due in More Than One Year	2,122,980
Total Liabilities	2,529,211
DEFERRED INFLOWS OF RESOURCES	97,735
NET POSITION	
Net Investment in Capital Assets	198,463
Restricted for:	
Capital Projects	98,530
Educational Programs	67,123
Unrestricted	(1,043,900)
Total Net Position	$ (679,784)

The accompanying notes are an integral part of this statement.

VALLECITOS SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

Functions	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expenses) Revenues and Changes in Net Position: Governmental Activities	Net (Expenses) Revenues and Changes in Net Position: Total
Governmental Activities:						
Instruction	$ 2,189,451	$ 183,121	$ 545,513	$ --	$ (1,460,817)	$ (1,460,817)
Instruction-Related Services:						
School Site Administration	311,199	--	7,531	--	(303,668)	(303,668)
Pupil Services:						
Home-to-School Transportation	432	--	352	--	(80)	(80)
Food Services	25,846	--	--	--	(25,846)	(25,846)
General Administration:						
Centralized Data Processing	1,816	--	--	--	(1,816)	(1,816)
All Other General Administration	270,995	--	3,228	--	(267,767)	(267,767)
Plant Services	289,469	--	--	--	(289,469)	(289,469)
Ancillary Services	2,250	2,244	--	--	(6)	(6)
Total Expenses	$ 3,091,458	$ 185,365	$ 556,624	$ --	$ (2,349,469)	$ (2,349,469)

	Governmental Activities	Total
General Revenues:		
Taxes and Subventions:		
Taxes Levied for General Purposes	834,957	834,957
Federal and State Aid Not Restricted to Specific Programs	1,203,100	1,203,100
Interest and Investment Earnings	10,215	10,215
Miscellaneous	183,612	183,612
Total General Revenues, Special and Extraordinary Items, and Transfers	$ 2,231,884	$ 2,231,884
Change in Net Assets	(117,585)	(117,585)
Net Position Beginning, as Restated (Note P)	(562,199)	(562,199)
Net Position Ending	$ (679,784)	$ (679,784)

The accompanying notes are an integral part of this statement.

VALLECITOS SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2017

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS:			
Cash in County Treasury	$ 981,629	$ 24,980	$ 1,006,609
Cash in Revolving Fund	1,000	--	1,000
Accounts Receivable	371,967	6,033	378,000
Due from Other Funds	4,000	--	4,000
Total Assets	1,358,596	31,013	1,389,609
LIABILITIES AND FUND BALANCE:			
Liabilities:			
Accounts Payable	$ 405,880	$ 351	$ 406,231
Due to Other Funds	--	4,000	4,000
Total Liabilities	405,880	4,351	410,231
Fund Balance:			
Nonspendable Fund Balances:			
Revolving Cash	1,000	--	1,000
Restricted Fund Balances	63,192	3,929	67,121
Assigned Fund Balances	75,798	22,733	98,531
Unassigned:			
Reserve for Economic Uncertainty	135,000	--	135,000
Other Unassigned	677,726	--	677,726
Total Fund Balance	952,716	26,662	979,378
Total Liabilities and Fund Balances	$ 1,358,596	$ 31,013	$ 1,389,609

The accompanying notes are an integral part of this statement.

VALLECITOS SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2017

Total fund balances - governmental funds balance sheet		$	979,378
Amounts reported for governmental activities in the statement of net position are different because:			
Capital assets used in governmental activities are not reported in the funds, net of accumulated depreciation.			226,361
Long-term liabilities: In governmental funds, only current liabilities are reported. In the statement of net position, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consisted of:			
Net Pension Liability	2,122,980		
			(2,122,980)
Deferred outflows and inflows of resources relating to pensions: In governmental funds, deferred outflows and inflows of resources relating to pensions are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources relating to pensions are reported.			
Deferred Outflows of Resources - Pension Related			335,192
Deferred Inflows of Resources - Pension Related			(97,735)
Total net position-governmental activities		$	(679,784)

The accompanying notes are an integral part of this statement.

VALLECITOS SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues:			
LCFF Sources:			
State Apportionment or State Aid	$ 1,250,599	$ --	$ 1,250,599
Education Protection Account Funds	247,896	--	247,896
Local Sources	463,849	--	463,849
Federal Revenue	142,949	--	142,949
Other State Revenue	184,628	91,183	275,811
Other Local Revenue	582,787	9,982	592,769
Total Revenues	2,872,708	101,165	2,973,873
Expenditures:			
Current:			
Instruction	1,893,831	92,748	1,986,579
Instruction - Related Services	280,006	--	280,006
Pupil Services	22,897	--	22,897
Ancillary Services	2,250	--	2,250
General Administration	235,014	--	235,014
Plant Services	248,824	30,463	279,287
Total Expenditures	2,682,822	123,211	2,806,033
Excess (Deficiency) of Revenues Over (Under) Expenditures	189,886	(22,046)	167,840
Net Change in Fund Balance	189,886	(22,046)	167,840
Fund Balance, July 1	762,830	48,708	811,538
Fund Balance, June 30	$ 952,716	$ 26,662	$ 979,378

The accompanying notes are an integral part of this statement.

VALLECITOS SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

Net change in fund balances - total governmental funds		$	167,840
Amounts reported for governmental activities in the statement of activities are different because:			
Capital Outlay: In governmental funds, the cost of capital assets are reported as expenditures in the period when the assets are acquired. In the statement of activities, costs of capital assets are allocated over their estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is:			
Expenditures for capital outlay	--		
Depreciation expense	(33,142)		
Net			(33,142)
Pensions: In government 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:			(252,283)
Change in net position of governmental activities - statement of activities		$	(117,585)

The accompanying notes are an integral part of this statement.

VALLECITOS SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2017

	Agency Fund
	Student Body Fund
ASSETS:	
Cash on Hand and in Banks	$ 10,138
Total Assets	10,138
LIABILITIES:	
Due to Student Groups	$ 10,138
Total Liabilities	10,138
NET POSITION:	
Total Net Position	$ --

The accompanying notes are an integral part of this statement.

A. Summary of Significant Accounting Policies

Vallecitos School District (District) accounts for its financial transactions in accordance with the policies and procedures of the Department of Education's "California School Accounting Manual". The accounting policies of the District conform to accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

1. Reporting Entity

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

2. Component Units

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete. The District has no component units. Additionally, the District is not a component unit of any other reporting entity as defined by GASB Statement 14, 39 and 61.

3. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

Government-wide Statements: The statement of net position and the statement of activities 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. The District does not allocate indirect expenses in the statement of activities. 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, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The District reports the following major governmental funds:

General Fund. This is the District's primary operating fund. It accounts for all financial resources of the District except those required to be accounted for in another fund.

In addition, the District reports the following fund types:

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

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

b. Measurement Focus, Basis of Accounting

Government-wide and Fiduciary Fund Financial Statements: These financial statements are reported using the economic resources measurement focus. They are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. 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 for which the taxes are levied. Revenue from grants, entitlements, and donations 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. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both 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. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

When the District incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the District's policy to use restricted resources first, then unrestricted resources.

4. 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.

5. Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. By state law, the District's governing board must adopt a final budget no later than July 1. A public hearing must be conducted to receive comments prior to adoption. The District's governing board satisfied these requirements.

These budgets are revised by the District's governing board and district superintendent during the year to give consideration to unanticipated income and expenditures.

Formal budgetary integration was used as a management control device during the year for all budgeted funds**.** The District employs budget control by minor object and by individual appropriation accounts**.** Expenditures cannot legally exceed appropriations by major object code.

6. Revenues and Expenses

a. Revenues - Exchange and Non-Exchange

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 year or expected to be collected soon enough thereafter, to be used to pay liabilities of the current fiscal year**.** Generally, available is defined as collectible within 60 days. However, to achieve comparability of reporting among California districts and so as to not 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, property tax revenue, interest, certain grants, and other local sources.

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

b. Expenses/Expenditures

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

7. Assets, Liabilities, and Equity

a. Deposits and Investments

Cash balances held in banks and in revolving funds are insured to $250,000 by the Federal Depository Insurance Corporation. All cash held by the financial institutions is fully insured or collateralized.

In accordance with Education Code Section 41001, the District maintains substantially all its cash in the San Diego County Treasury. The county pools these funds with those of other districts in the county and invests the cash. These pooled funds are carried at cost, which approximates market value. Interest earned is deposited quarterly into participating funds, except for the Tax Override Funds, in which interest earned is credited to the general fund. Any investment losses are proportionately shared by all funds in the pool.

The county is authorized to deposit cash and invest excess funds by California Government Code Section 53648 et seq. The funds maintained by the county are either secured by federal depository insurance or are collateralized.

Information regarding the amount of dollars invested in derivatives with average cost County Treasury was not available.

b. Stores Inventories and Prepaid Expenditures

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

The District has the option of reporting an expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditure when incurred.

c. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. 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. A capitalization threshold of $5,000 is used.

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

Asset Class	Estimated Useful Lives
Buildings	25-50
Building Improvements	20
Vehicles	5-15
Office Equipment	5-15
Computer Equipment	5-15

d. Compensated Absences

Accumulated unpaid employee vacation benefits are recognized as liabilities of the District. The current portion of the liabilities is recognized in the general fund at year end.

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

e. Unearned Revenue

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

f. Interfund Activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net position.

g. Property Taxes

Secured property taxes attach as an enforceable lien on property as of March 1. Taxes are payable in two installments on November 15 and March 15. Unsecured property taxes are payable in one installment on or before August 31. The County of San Diego bills and collects the taxes for the District.

h. Fund Balances - Governmental Funds

Fund balances of the governmental funds are classified as follows:

Nonspendable Fund Balance - represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid insurance) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted Fund Balance - represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

Committed Fund Balance - represents amounts that can only be used for a specific purpose because of a formal action by the District's Board. Committed amounts cannot be used for any other purpose unless the Board removes those constraints by taking the same type of formal action. Committed fund balance amounts may be used for other purposes with appropriate due process by the Board. Commitments are typically done through adoption and amendment of the budget. Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

Assigned Fund Balance - represents amounts which the District intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the board of directors or by an official or body to which the board of directors delegates the authority. The board of directors has delegated authority to the assistant superintendent of business services. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund's primary purpose. Assignments within the general fund conveys that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the District itself.

Unassigned Fund Balance - represents amounts which are unconstrained in that they may be spent for any purpose. Only the general fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed or assigned.

When an expenditure is incurred for a purpose for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

8. Deferred Inflows and Deferred Outflows of Resources

Deferred outflows of resources is a consumption of net position that is applicable to a future reporting period. Deferred inflows of resources is an acquisition of net position that is applicable to a future reporting period. Deferred outflows of resources and deferred inflows of resources are recorded in accordance with GASB Statement numbers 63 and 65.

9. GASB 54 Fund Presentation

Consistent with fund reporting requirements established by GASB Statement No. 54, Fund 17 (Special Reserve Fund for Other Than Capital Outlay) is merged with the General Fund for purposes of presentation in the audit report.

10. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position of the CalPERS Schools Pool Cost-Sharing Multiple-Employer Plan (CalPERS Plan) and CalSTRS Schools Pool Cost-Sharing Multiple Employer Plan (CalSTRS Plan), and additions to/deductions from the CalPERS Plan and CalSTRS Plan's fiduciary net positions have been determined on the same basis as they are reported by the CalPERS Financial Office and CalSTRS Financial Office. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair values.

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined time frames. For this report, the following time frames are used:

Valuation Date (VD)	June 30, 2015
Measurement Date (MD)	June 30, 2016
Measurement Period (MP)	July 1, 2015 to June 30, 2016

11. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates. Actual results could differ from tjhose estimates.

12. Fair Value Measurements

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles as defined by Governmental Accounting Standards Board (GASB) Statement No. 72. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. The hierarchy is detailed as follows:

Level 1 Inputs:	Quoted prices (unadjusted) in active markets for identical assets or liabilities that a government can access at the measurement date.
Level 2 Inputs:	Inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly.
Level 3 Inputs:	Unobservable inputs for an asset or liability.

For the current fiscal year the District did not have any recurring or nonrecurring fair value measurements.

13. Change in Accounting Policies

The District has adopted accounting policies compliant with new pronouncements issued by the Government Accounting Standards Board (GASB) that are effective for the fiscal year ended June 30, 2017. Those newly implemented pronouncements are as follows:

GASB Statement No. 74 - Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans

The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability.

This Statement replaces Statements No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, as amended, Statement 43, and Statement No. 50 Pension Disclosures.

The scope of this Statement includes OPEB plans defined benefit and defined contribution - administered through trusts that meet the following criteria:

1. Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.

2. OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.

3. OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the OPEB plan administrator. If the plan is a defined benefit OPEB plan, plan assets also are legally protected from creditors of the plan members.

This Statement also includes requirements to address financial reporting for assets accumulated for purposes of providing defined benefit OPEB through OPEB plans that are not administered through trusts that meet the specified criteria.

The District does not administer their OPEB plan through a trust that meets the criteria noted above. As a result, the adoption of GASB Statement No. 74 did not result in a change to the financial statements or note disclosures.

GASB Statement No. 77 - Tax Abatement Disclosures

The objective of this Statement is to improve usefulness of information about tax abatement agreements entered into by governmental agencies. Disclosure of information about the nature and magnitude of tax abatements will make these transactions more transparent to financial statement users. As a result, users will be better equipped to understand (1) how tax abatements affect a government's future ability to raise resources and meet its financial obligations and (2) the impact those abatements have on a government's financial position and economic condition.

This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

1. Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients.

2. The gross dollar amount of taxes abated during the period.

3. Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.

The District has not entered into any tax abatement agreements. As a result, the adoption of GASB Statement No. 77 did not result in a change to the financial statements or note disclosures.

GASB Statement No. 80 - Blending Requirements for Certain Component Units

The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, The Financial Reporting Entity, as amended.

This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member**.** The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, Determining Whether Certain Organizations Are Component Units.

The District did not have any component units which met the definition noted above. As a result, the adoption of GASB Statement No. 80 did not result in a change to the financial statements or note disclosures.

GASB Statement No. 82 - Pension Issues - An Amendment of GASB No. 67, No. 68 and No. 73

The objective of this Statement is to address certain issues that have been raised with respect to Statements No 67, Financial Reporting for Pension Plans, No 68. Accounting and Financial Reporting for Pensions, and No. 73. Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. Specifically this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

Prior to the issuance of this Statement, Statements 67 and 68 required presentation of covered employee payroll, which is the payroll of employees that are provided with pensions through the pension plan, and ratios that use that measure, in schedules of required supplementary information. This Statement amends Statements 67 and 68 to instead require the presentation of covered payroll, defined as the payroll on which contributions to a pension plan are based, and ratios that use that measure.

This Statement clarifies that a deviation, as the term is used in Actuarial Standards of Practice issued by the Actuarial Standards Board, from the guidance in an Actuarial Standard of Practice is not considered to be in conformity with the requirements of Statement 67, Statement 68, or Statement 73 for the selection of assumptions used in determining the total pension liability and related measures.

This Statement clarifies that payments that are made by an employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements should be classified as plan member contributions for purposes of Statement 67 and as employee contributions for purposes of Statement 68. It also requires that an employer's expense and expenditures for those amounts be recognized in the period for which the contribution is assessed and classified in the same manner as the employer classifies similar compensation other than pensions (for example, as salaries and wages or as fringe benefits).

The financial statements and note disclosures have been updated for the affects of the adoption of GASB Statement No. 82.

B. Compliance and Accountability

1. Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations.

Violation	Action Taken
None reported	Not applicable

2. Deficit Fund Balance or Fund Net Position of Individual Funds

Following are funds having deficit fund balances or fund net position at year end, if any, along with remarks which address such deficits:

Fund Name	Deficit Amount	Remarks
None reported	Not applicable	Not applicable

C. Cash and Investments

1. Cash in County Treasury:

In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the San Diego County Treasury as part of the common investment pool ($1,006,609 as of June 30, 2017). The fair value of the District's portion of this pool as of that date, as provided by the pool sponsor, was $1,006,609. Assumptions made in determining the fair value of the pooled investment portfolios are available from the County Treasurer.

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

The San Diego County Treasury is not registered with the Securities and Exchange Commission (SEC) as an investment company; however, the County Treasury acts in accordance with investment policies monitored by a Treasury Oversight Committee consisting of members appointed by participants in the investment pool and up to five members of the public having expertise, or an academic background in, public finance. In addition, the County Treasury is audited annually by an independent auditor.

2. Cash on Hand, in Banks, and in Revolving Fund

Cash balances on hand and in banks ($10,138 as of June 30, 2017) and in the revolving fund ($1,000) are insured up to $250,000 by the Federal Depository Insurance Corporation. All cash held by the financial institution is fully insured or collateralized.

3. Investments Authorized by the California Government Code and the District's Investment Policy

The table below identifies the investment types that are authorized for the District by the California Government Code (or the District's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District's investment policy where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District's investment policy.

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

4. Analysis of Specific Deposit and Investment Risks

GASB Statement No. 40 requires a determination as to whether the District was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The county is restricted by Government Code Section 53635 pursuant to Section 53601 to invest only in time deposits, U.S. government securities, state registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. The San Diego County Investment Pool is rated AAAf/S1 by Standard & Poors. At year end the District was not exposed to credit risk.

b. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the District's name. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: 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% of the total amount deposited by the public agencies. California law also allows financial institutions to secure deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits

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

As of June 30, 2017, the District's bank balances (including revolving cash) of $11,138 was not exposed to custodial credit risk.

c. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government Code. Investments in any one issuer that represent five percent or more of the total investments are either an external investment pool and are therefore exempt. As such, the District was not exposed to concentration of credit risk.

d. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment**.** Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the county pool.

e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the District was not exposed to foreign currency risk.

6. Investment Accounting Policy

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

The District's investments in external investment pools are reported in conformity with GASB Statement No. 77 unless the pool is 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

D. Accounts Receivable

Accounts receivable at June 30, 2017 consisted of:

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Federal Government:			
Federal programs	$ 35,476	$ --	$ 35,476
State Government:			
Lottery	18,030	--	18,030
Special education	65,932	--	65,932
ASES	121,256	--	121,256
Other state programs	131,048	3,988	135,036
Local Sources:			
Interest	225	106	331
Other local sources	--	1,939	1,939
Totals	$ 371,967	$ 6,033	$ 378,000

E. Capital Assets

Capital asset activity for the year ended June 30, 2017, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 6,161	$ --	$ --	$ 6,161
Total capital assets not being depreciated	6,161	--	--	6,161
Capital assets being depreciated:				
Buildings	902,421	--	--	902,421
Improvements	28,067	--	--	28,067
Equipment	253,951	--	--	253,951
Total capital assets being depreciated	1,184,439	--	--	1,184,439
Less accumulated depreciation for:				
Buildings	(676,997)	(27,784)	--	(704,781)
Improvements	(28,067)	--	--	(28,067)
Equipment	(226,034)	(5,358)	--	(231,392)
Total accumulated depreciation	(931,098)	(33,142)	--	(964,240)
Total capital assets being depreciated, net	253,341	(33,142)	--	220,199
Governmental activities capital assets, net	$ 259,502	$ (33,142)	$ --	$ 226,360

Depreciation was charged to functions as follows:

Instruction	$	17,314
General Administration		12,241
Plant Services		3,587
	$	33,142

F. Interfund Balances and Activities

1. Due To and From Other Funds

Balances due to and due from other funds at June 30, 2017, consisted of the following:

Due To Fund	Due From Fund		Amount	Purpose
General Fund	Nonmajor Governmental Funds	$	4,000	Temporary loan
	Total	$	4,000	

All amounts due are scheduled to be repaid within one year.

G. Short-Term Debt Activity

The District accounts for short-term debts for maintenance purposes through the General Fund. The proceeds from loans are shown in the financial statements as Other Resources.

H. Accounts Payable

Accounts payable at June 30, 2017 consisted of:

		General Fund		Nonmajor Governmental Funds		Total Governmental Funds
Vendor payables	$	18,801	$	--	$	18,801
Payroll and related benefits		17,327		351		17,678
Due to District charter		369,752		--		369,752
Totals	$	405,880	$	351	$	406,231

I. Deferred Outflows of Resources

In accordance with GASB Statement No. 68 & 71, payments made subsequent to the net pension liability measurement date are recorded as deferred outflows of resources.

A summary of the deferred outflows of resources as of June 30, 2017 is as follows:

Description	Issue Date	Amortization Term		Balance July 1, 2016		Additions		Current Year Amortization		Balance June 30, 2017
Pension related	06/30/2015	Varies	$	228,394	$	292,016	$	185,218	$	335,192
Total Deferred Outflows of Resources			$	228,394	$	292,016	$	185,218	$	335,192

Future amortization of deferred outflows of resources is as follows:

Year Ending June 30		Pension Related
2018	$	228,530
2019		42,784
2020		42,786
2021		21,092
Toital	$	335,192

J. Deferred Inflows of Resources

In accordance with GASB Statement No. 68 & 71, payments received subsequent to the net pension liability measurement date are recorded as deferred inflows of resources.

A summary of the deferred inflows of resources as of June 30, 2017 is as follows:

Description	Issue Date	Amortization Term	Balance July 1, 2016	Additions	Current Year Amortization	Balance June 30, 2017
Pension related	06/30/2015	Varies	$ 112,116	$ 24,994	$ 39,375	$ 97,735
Total Deferred Inflows of Resources			$ 112,116	$ 24,994	$ 39,375	$ 97,735

Future amortization of deferred inflows of resources is as follows:

Year Ending June 30		Pension Related
2018	$	39,374
2019		39,373
2020		14,000
2021		4,988
Toital	$	97,735

K. Long-Term Obligations

1. Long-Term Obligation Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended June 30, 2017, are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Governmental activities:					
Net Pension Liability	$ 1,749,518	$ 373,462	$ --	$ 2,122,980	$ --
Total governmental activities	$ 1,749,518	$ 373,462	$ --	$ 2,122,980	$ --

2. Net Pension Liability

The District's beginning net pension liability was $1,749,518 and increased by $373,462 during the year ended June 30, 2017. The ending net pension liability at June 30, 2017 was $2,122,980. See Note N for additional information regarding the net pension liability.

L. Commitments Under Noncapitalized Leases

Commitments under operating (noncapitalized) lease agreements for facilities and equipment provide for minimum future rental payments as of June 30, 2017, as follows:

Year Ending June 30,		
2018	$	10,643
2019		10,643
Total Minimum Rentals	$	21,286

The District will receive no sublease rental revenues nor pay any contingent rentals associated with these leases.

M. Joint Ventures (Joint Powers Agreements)

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

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

Financial information on the District's share of the SDCSRM JPA for the year ended June 30, 2017 was not available at the time this report was issued. The information can be obtained by contacting the JPA directly.

N. Pension Plans

1. General Information About the Pension Plans

a. Plan Descriptions

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). Benefit provisions under the Plans are established by State statute and Local Government resolution. Support by the State for the CalSTRS plan is such that the plan has a special funding situation as defined by GASB Statement No. 68. CalSTRS and CalPERS issue publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on their respective websites.

b. Benefits Provided

CalSTRS and CalPERS provide service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members. Benefits are based on years of credited service, equal to one year of full-time employment. Members with five years of total service are eligible to retire at age 62 for normal benefits or at age 55 with statutorily reduced benefits. Employees hired prior to January 1, 2013 are eligible to retire at age 60 for normal benefits or at age 55 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. All members are eligible for death benefits after one year of total service.

The Plans' provisions and benefits in effect at June 30, 2017 are summarized as follows:

	CalSTRS	
	Before	On or After
Hire Date	Jan. 1, 2013	Jan. 1, 2013
Benefit Formula	2% at 60	2% at 62
Benefit Vesting Schedule	5 Years	5 Years
Benefit Payments	Monthly for Life	Monthly for Life
Retirement Age	50-62	55-67
Monthly benefits, as a % of eligible compensation	1.1 - 2.4%*	1.0 - 2.4%*
Required Employee Contribution Rates (at June 30, 2017)	10.250%	9.205%
Required Employer Contribution Rates (at June 30, 2017)	12.580%	12.580%
Required State Contribution Rates (at June 30, 2017)	7.050%	7.050%

*Amounts are limited to 120% of Social Security Wage Base.
**The rate imposed on CalSTRS 2% at 62 members is based on the normal cost of benefits.

	CalPERS	
	Before	On or After
Hire Date	Jan. 1, 2013	Jan. 1, 2013
Benefit Formula	2% at 55	2% at 62
Benefit Vesting Schedule	5 Years	5 Years
Benefit Payments	Monthly for Life	Monthly For Life
Retirement Age	50-62	55-67
Monthly Benefits as a % of Eligible Compensation	1.1- 2.5%*	1.0- 2.5%*
Required Employee Contribution Rates (at June 30, 2017)	7.000%	6.000%
Required Employer Contribution Rates (at June 30, 2017)	13.888%	13.888%

*Amounts are limited to 120% of Social Security Wage Base.

c. Contributions

CalSTRS

For the measurement period ended June 30, 2016 (measurement date), Section 22950 of the California Education code requires members to contribute monthly to the system 9.20% (if hired prior to January 1, 2013) or 8.56% (if hired on or after January 1, 2013) of the creditable compensation upon which members' contributions under this part are based (rates increased to 10.25% and 9.205% for fiscal year ended June 30, 2017). In addition the employer required rates established by the CalSTRS Board have been established at 10.73% of creditable compensation for the measurement period ended June 30, 2016 and 12.58% for the fiscal year ended June 30, 2017. Rates are defined in Section 22950.5 through measurement period ending June 30, 2021. Beginning in the fiscal year 2021-22 and for each fiscal year thereafter, the CalSTRS Board has the authority to increase or decrease percentages paid specific to reflect the contribution required to eliminate by June 30, 2046, the remaining unfunded actuarial obligation with respect to service credited to members before July 1, 2014, as determined by the Board based upon a recommendation from its actuary.

CalPERS

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The CalPERS Board retains the authority to amend contribution rates. The total plan contributions are determined through CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the measurement period ended June 30, 2016 (measurement date), the average active employee contribution rate is 6.974% of annual pay, and the employer's contribution rate is 11.847% of annual payroll. For the fiscal year ending June 30, 2017, the average active employee contribution rate is 6.974%, and the employer's contribution rate is 13.888%.

On Behalf Payments

Consistent with Section 22955.1 of the California Education Code, the State of California makes contributions to CalSTRS on behalf of employees working for the District. For the measurement period ended June 30, 2016 (measurement date) the State contributed 7.050% of salaries creditable to CalSTRS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves, and have not been included in the budgeted amounts reported in the General Fund Budgetary Comparison Schedule. Contribution reported each fiscal year are based on the contribution rate multiplied by salaries creditable to CalSTRS from the fiscal year two periods prior to the measurement period.

On Behalf Payments reported by the District for the past three fiscal years are as follows:

Year Ended June 30,	Contribution Rate	Contribution Amount
2015	5.679%	$ 53,813
2016	7.126%	64,866
2017	7.050%	80,836

d. Contributions Recognized

For the measurement period ended June 30, 2016 (fiscal year June 30, 2017), the contributions recognized for each plan were:

	CalSTRS	CalPERS	Total
Contributions - Employer (Measurement Period)	$ 108,866	$ 34,234	$ 143,100
Contributions - State On Behalf Payments (Fiscal Year)	80,836	--	80,836
Total Contributions	$ 189,702	$ 34,234	$ 223,936

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

As of June 30, 2017, the District reported net pension liabilities for its proportionate shares of the net pension liability of each plan as follows:

	Proportionate Share of Net Pension Liability
CalSTRS	$ 1,651,685
CalPERS	471,295
Total Net Pension Liability	$ 2,122,980

The District's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2016, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures. The District's portion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined.

The District's proportionate share of the net pension liability for each Plan as of June 30, 2016 and June 30,2017 were as follows:

	CalSTRS			
	District's Proportionate Share	State's Proportionate Share	Total For District Employees	CalPERS
Proportion June 30, 2016	0.0020%	0.0013%	0.0033%	0.0026%
Proportion June 30, 2017	0.0020%	0.0012%	0.0032%	0.0024%
Change in Proportion	0.0000%	-0.0001%	-0.0001%	-0.0002%

a. Pension Expense

For the measurement period ended June 30, 2016 (fiscal year June 30, 2017), pension expense was recognized as follows:

	CalSTRS	CalPERS	Total
Change in Net Pension Liability (Asset)	$ 278,846	$ 94,613	$ 373,459
Contributions - State On Behalf Payments	80,836		80,836
Increase/(Decrease) resulting from changes in Deferred Outflows and Deferred Inflows of Resouces for:			
Contributions - Employer made subsequent to measurement date	(31,599)	(11,047)	(42,646)
Difference Between Actual & Expected Experience	(66)	(1,848)	(1,914)
Change in Assumptions	--	(6,225)	(6,225)
Change in Proportionate Shares	(3,367)	19,010	15,642
Net Difference Between Projected & Actual Earnings	(197)	(86,203)	(86,400)
Total Pension Expense	$ 324,452	$ 8,300	$ 323,267

b. Deferred Outflows and Inflows of Resources

At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources		
	CalSTRS	CalPERS	Total
Pension contributions subsequent to measurement date	$ 140,465	$ 45,281	$ 185,746
Differences between actual and expected experience	--	25,009	25,009
Changes in assumptions	--	--	--
Change in employer's proportion share	1,594	--	1,594
Net difference between projected and actual earnings	465	122,378	122,843
Total Deferred Outflows of Resources	$ 142,524	$ 192,668	$ 335,192

	Deferred Inflows of Resources		
	CalSTRS	CalPERS	Total
Pension contributions subsequent to measurement date	$ --	$ --	$ --
Differences between actual and expected experience	(318)	--	(318)
Changes in assumptions	--	(18,675)	(18,675)
Change in employer's proportionate share	(5,323)	(22,771)	(28,094)
Net difference between projected and actual earnings	--	(50,649)	(50,649)
Total Deferred Inflows of Resouces	$ (5,641)	$ (92,095)	$ (97,736)

Pension contributions made subsequent to measurement date reported as deferred outflows of resources will be recognized as a portion of pension expense in the year ended June 30, 2018. The remaining amounts reported as deferred outflows or deferred inflows of resources will be recognized as an increase or decrease to pension expense over a five year period. Pension expense resulting from deferred outflows and deferred inflows of resources will be recognized as follows:

Year Ended	Deferred Outflows of Resources		Deferred Inflows of Resources		Net Effect
June 30	CalSTRS	CalPERS	CalSTRS	CalPERS	on Expenses
2018	$ 140,996	$ 87,533	$ (1,896)	$ (37,477)	$ 189,156
2019	531	42,252	(1,896)	(37,476)	3,411
2020	531	42,254	(1,837)	(12,153)	28,795
2021	465	20,579	(12)	(4,989)	16,044
Total	$ 142,523	$ 192,618	$ (5,641)	$ (92,095)	$ 237,406

c. Actuarial Assumptions

The total pension liabilities in the June 30, 2017 actuarial valuations were determined using the following actuarial assumptions:

	CalSTRS		CalPERS	
Valuation Date	June 30, 2015		June 30, 2015	
Measurement Date	June 30, 2016		June 30, 2016	
Actuarial Cost Method	Entry Age - Normal Cost Method for both CalSTRS & CalPERS			
Actuarial Assumptions:				
Discount Rate	7.60%		7.65%	
Inflation	3.0%		2.75%	
Payroll Growth	3.75%		3.00%	
Projected Salary Increase	0.05%-5.6%	(1)	3.20%-10.80%	(1)
Investment Rate of Return	7.65%	(2)	7.60%	(2)
Mortality	.013%-0.435%	(3)	0.00125-0.45905	(3)

(1) Depending on age, service and type of employment
(2) Net of pension plan investment expenses, including inflation
(3) Industry standard published by the Society of Actuaries

d. Discount Rate

The discount rate used to measure the total pension liability was 7.60% for CalSTRS and 7.65% for CalPERS. The projection of cash flows used to determine the discount rate assumed the contributions from plan members, employers, and state contributing agencies will be made at statutory contribution rates. To determine whether the District bond rate should be used in the calculation of a discount rate for each plan, CalSTRS and CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current discount rates are adequate and the use of the District bond rate calculation is not necessary for either plan. The stress test results are presented in a detailed report that can be obtained from the CalPERS and CalSTRS websites.

The CalPERS discount rate was increased from 7.50% in 2015 to correct for an adjustment to exclude administrative expenses. There have been no other changes to discount rate for either CalPERS or CalSTRS.

According to Paragraph 30 of GASB Statement No. 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The investment return assumption used in the accounting valuations is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalSTRS and CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

CalSTRS and CalPERS are scheduled to review all actuarial assumptions as part of their regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require board action and proper stakeholder outreach. For these reasons, CalSTRS and CalPERS expect to continue using a discount rate net of administrative expenses for GASB 67 and GASB 68 calculations through at least the 2017-18 fiscal year. CalSTRS and CalPERS will continue to check the materiality of the difference in calculation until such time as they have changed their methodology.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalSTRS and 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 10 years) and long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest quarter of one percent.

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

CalSTRS

Asset Class	Assumed Allocation 06/30/2016	Long Term Expected Return*
Global Equity	47.00%	6.30%
Fixed Income	12.00%	0.30%
Real Estate	13.00%	5.20%
Private Equity	13.00%	9.30%
Absolute Return	9.00%	2.90%
Inflation Sensitive	4.00%	3.80%
Cash/Liquidity	2.00%	-1.00%

*20 year geometric average used for long term expected real rate of return

CalPERS

Asset Class	Assumed Allocation 06/30/2016	Real Return Years 1-10(1)	Real Return Years 11+(2)
Global Equity	51.00%	5.25%	5.71%
Global Debt Securities	20.00%	0.99%	2.43%
Inflation Assets	6.00%	0.45%	3.36%
Private Equity	10.00%	6.83%	6.95%
Real Estate	10.00%	4.50%	5.13%
Infrastructure	2.00%	4.50%	5.09%
Liquidity	1.00%	-0.55%	-1.05%

(1) An expected inflation of 2.5% used for this period
(2) An expected inflation of 3.0% used for this period

e. Sensitivity to Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following represents the District's proportionate share of the net pension liability for each Plan, calculated using the discount rate for each Plan, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	CalSTRS	CalPERS
1% Decrease	6.65%	6.60%
Net Pension Liability	$ 2,377,148	$ 703,163
Current Discount Rate	7.60%	7.65%
Net Pension Liability	$ 1,651,685	$ 471,287
1% Increase	8.65%	8.60%
Net Pension Liability	$ 1,049,159	$ 278,205

f. Total Pension Liability, Pension Plan Fiduciary Net Position and Net Pension Liability

CalSTRS

	Increase (Decrease)				
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)	State's Share of Net Pension Liability (c)	District's Share of Net Pension Liability (a) - (b) - (c)
Balance at June 30, 2016 (Previously Reported)	$ 8,653,296	$ 6,405,246	$ 2,248,050	$ 875,211	$ 1,372,839
Changes for the year:					
Change in Proportionate share	(251,481)	(186,148)	(65,333)	(67,324)	1,991
Service Cost	190,442	--	190,442	70,488	119,954
Interest	626,765	--	626,765	231,984	394,781
Differences between expected and actual experience	(39,197)	--	(39,197)	(14,508)	(24,689)
Contributions:					
Employer	--	109,945	(109,945)	(40,694)	(69,251)
Employee	--	95,885	(95,885)	(35,490)	(60,395)
State On Behalf Payments	--	62,894	(62,894)	(23,279)	(39,615)
Net Investment Income	--	74,729	(74,729)	(27,659)	(47,070)
Other Income	--	1,346	(1,346)	(498)	(848)
Benefit Payments, including refunds of employee contributions	(426,291)	(426,291)	--	--	--
Administrative expenses	--	(5,838)	5,838	2,161	3,677
Other Expenses	--	(494)	494	183	311
Net Changes	100,238	(273,972)	374,210	95,364	278,846
Balance at June 30, 2017	$ 8,753,534	$ 6,131,274	$ 2,622,260	$ 970,575	$ 1,651,685

CalPERS

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at June 30, 2016 (Previously Reported)	$ 1,831,001	$ 1,454,327	$ 376,674
Changes for the year:			
Adjustment for Change in Proportionate Share	(121,221)	(96,283)	(24,938)
Service Cost	40,964	--	40,964
Interest	129,858	--	129,858
Differences between expected and actual experience	9,547	--	9,547
Changes in Assumptions	--	--	--
Contributions - Employer	--	34,234	(34,234)
Contributions - Employee	--	20,310	(20,310)
Net Plan to Plan Resource Movement	--	--	--
Net Investment Income	--	7,099	(7,099)
Benefit Payments, including refunds of employee contributions	(84,637)	(84,637)	--
Administrative expenses	--	(825)	825
Net Changes	(25,489)	(120,102)	94,613
Balance at June 30, 2017	$ 1,805,512	$ 1,334,225	$ 471,287

Detailed information about each pension plan's fiduciary net position is available in the separately issued CalSTRS and CalPERS financial reports.

O. Risk Management

The District is exposed to risk of losses due to:

a. Torts,
b. Theft of, damage to, or destruction of assets,
c. Business interruption,
d. Errors or omissions,
e. Job related illnesses or injuries to employees,
f. Acts of God,
g. Other risks associated with public entity risk pools

Risk management is the process of managing the District's activities to minimize the adverse effects of these risks**.** The main element of risk management are risk control (to minimize the losses that strike an organization) and risk financing (to obtain finances to provide for or restore the economic damages of those losses)**.** Risk financing techniques include risk retention (self-insurance), risk transfer to and from an insurer, and risk transfer to a noninsurer.

The District has implemented the risk financing technique of risk transfer to an insurer. The District has purchased property & liability insurance as well as workers compensation insurance to cover any loses resulting from the risks identified above.

The District purchases insurance through joint powers authorities. The District is not obligated to cover any losses beyond the premiums paid for the insurance costs. As a result there has not been a liability recorded for incurred but not reported claims.

P. Adjustment to Beginning Net Position

With the implementation of GASB Statement No 68 & 71 the District relied upon information provided by CalSTRS and CalPERS in order to calculate their proportion of the net pension liability, deferred outflows of resources - pension related, and deferred inflows of resources - pension related. Proportionate share was determined based on the calculated proportionate share provided by CalSTRS and CalPERS. During the current year the district calculated proportionate share by taking contributions to the CalSTRS and CalPERS plans and dividing by plan total contributions. The result was a small change to proportionate share based on rounding variances in the proportionate share. Additionally, CalSTRS auditors made audit adjustments to CalSTRS records which affected beginning net position for the District and is also being adjusted.

In addition it was noted there was an error in the reporting of accumulated depreciation for the previous year. As a result, an adjustment was necessary.

Net Position, Beginning (As Originally Stated)	$ (1,341,542)
Adjustments for:	
Correction of error to accumulated depreciation	(6,792)
Net Pension Liability Corrections	868,642
Deferred Outflows of Resources - Pension Related Corrections	(72,987)
Deferred Inflows of Resources - Pension Related Corrections	(9,520)
Net Position, Beginning (As Restated)	$ (562,199)

Q. Components of Ending Fund Balance

As of June 30, 2017 ending fund balance consisted of the following:

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable Fund Balances			
Revolving Cash	$ 1,000	$ --	$ 1,000
Restricted Fund Balances			
Child Development Program	--	3,930	3,930
Educational Programs	63,193	--	63,193
Assigned Fund Balances			
Capital Projects	75,798	22,732	98,530
Unassigned Fund Balances			
For Economic Uncertainty	135,000	--	135,000
Unappropriated	677,725	--	677,725
Total Fund Balance	$ 952,716	$ 26,662	$ 979,378

R. Commitments and Contingencies

Litigation

The District is involved in various litigation. In the opinion of management and legal counsel, the disposition of all litigation pending will not have a material effect on the financial statements.

State and Federal Allowances, Awards, and Grants

The District has received state and federal funds for specific purposes that are subject to view 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.

S. Subsequent Events

Implementation of New Accounting Guidance

The District has adopted accounting policies compliant with new pronouncements issued by the Government Accounting Standards Board (GASB) that are effective for the fiscal year ended June 30, 2018. Those newly implemented pronouncements are as follows:

GASB 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 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 OPEB plans.

The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. This Statement also addresses certain circumstances in which a nonemployer entity provides financial support for OPEB of employees of another entity.

Financial impact of implementing GASB Statement No. 75 has not yet been determined; however, it is expected that the Net OPEB Obligation will significantly increase. The District is currently in contact with an actuary to determine the complete fiscal impact.

GASB 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.

Split-interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. Split-interest agreements can be created through trusts --- or other legally enforceable agreements with characteristics that are equivalent to split-interest agreements --- in which a donor transfers resources to an intermediary to hold and administer for the benefit of a government and at least one other beneficiary. Examples of these types of agreements include charitable lead trusts, charitable remainder trusts, and life-interests in real estate.

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.

As of the date this audit report is issued, the District does not have any split-interest agreements. Consequently, implementation of GASB No 81 is not expected to have a financial or reporting impact on the District.

GASB 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 OPEB). Specifically, this Statement addresses the following topics:

1. 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.
2. Reporting amounts previously reported as goodwill and “negative” goodwill
3. Classifying real estate held by insurance entities
4. Measuring certain money market investments and participating interest-earning investment contracts at amortized cost.
5. Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus.
6. Recognizing on-behalf payments for pensions or OPEB in employer financial statements
7. Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB.
8. Classifying employer-paid member contributions for OPEB
9. Simplifying certain aspects of the alternative measurement method for OPEB
10. Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

Financial impact of implementing GASB Statement No. 85 has not yet been determined.

GASB 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 resourc---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 financial statements for debt that is defeased in substance.

Statement No. 7, Advance Refundings Resulting in Defeasance of Debt, requires that debt be considered defeased in substance when the debtor irrevocably places cash or other monetary assets acquired with refunding debt proceeds in a trust to be used solely for satisfying scheduled payments of both principal and interest of the defeased debt. The trust also is required to meet certain conditions for the transaction to qualify as an in-substance defeasance. This Statement establishes essentially the same requirements for when a government places cash and other monetary assets acquired with only existing resources in an irrevocable trust to extinguish the debt.
However, in financial statements using the economic resources measurement focus, governments should recognize any difference between the reacquisition price (the amount required to be placed in the trust) and the net carrying amount of the debt defeased in substance using only existing resources as a separately identified in the period of the defeasance.

Governments that defease debt using only existing resources should provide a general description of the transaction in the notes to financial statements in the period of the defeasance. In all periods following an in-substance defeasance of debt using only existing resources, the amount of that debt that remains outstanding at period-end should be disclosed.

For governments that extinguish debt, whether through a legal extinguishment or through an in-substance defeasance, this Statement requires that any remaining prepaid insurance related to the extinguished debt be included in the net carrying amount of that debt for the purpose of calculating the difference between the reacquisition price and the net carrying amount of the debt.

One of the criteria for determining an in-substance defeasance is that the trust hold only monetary assets that are essentially risk-free. If the substitution of essentially risk-free monetary assets with monetary assets that are not essentially risk-free is not prohibited, governments should disclose that fact in the period in which the debt is defeased in substance. In subsequent periods, governments should disclose the amount of debt defeased in substance that remains outstanding for which that risk of substitution exists.

As of the date this audit report was issued, the District did not have any defeasance of debt. Consequently, the implementation of GASB Statement No. 86 is not expected to have a fiscal impact on the District.

Temporary Loan

In August 2017, the District received a loan from the San Diego County Office of Education, a $575,000 no-interest loan for repairs to the District's septic system. The District has applied for Hardship Funds from the state of California to cover the anticipated costs to repair the District's septic system. If approved, Hardship Funds will not be available for at least 12 months. The loan will be due and payable within 60 days of District's receipt of the Hardship Funds.

Required Supplementary Information

Required supplementary information includes financial information and disclosures required by the Governmental Accounting Standards Board but not considered a part of the basic financial statements.

VALLECITOS SCHOOL DISTRICT

EXHIBIT B-1

GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2017

	Budgeted Amounts			Variance with Final Budget Positive
	Original	Final	Actual	(Negative)
Revenues:				
LCFF Sources:				
State Apportionment or State Aid	$ 1,128,374	$ 1,250,599	$ 1,250,599	$ --
Education Protection Account Funds	236,332	247,896	247,896	--
Local Sources	478,938	463,849	463,849	--
Federal Revenue	151,810	142,949	142,949	--
Other State Revenue	114,037	184,628	184,628	--
Other Local Revenue	444,605	582,016	582,016	--
Total Revenues	2,554,096	2,871,937	2,871,937	--
Expenditures:				
Current:				
Certificated Salaries	1,056,893	1,193,797	1,193,797	--
Classified Salaries	285,996	306,451	306,449	2
Employee Benefits	372,825	473,378	473,120	258
Books And Supplies	174,526	110,516	108,942	1,574
Services And Other Operating Expenditures	541,729	600,579	600,514	65
Total Expenditures	2,431,969	2,684,721	2,682,822	1,899
Excess (Deficiency) of Revenues Over (Under) Expenditures	122,127	187,216	189,115	1,899
Net Change in Fund Balance	122,127	187,216	189,115	1,899
Fund Balance, July 1	687,803	687,803	687,803	--
Fund Balance, June 30	$ 809,930	$ 875,019	$ 876,918	$ 1,899

EXHIBIT B-2

VALLECITOS SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
CALIFORNIA STATE TEACHERS RETIREMENT SYSTEM
LAST TEN FISCAL YEARS *

	Fiscal Year									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
District's proportion of the net pension liability (asset)	0.0020%	0.0020%	0.0021%	N/A	N/A	N/A	N/A	N/A	N/A	N/A
District's proportionate share of the net pension liability (asset)	$ 1,651,693	$ 1,372,844	$ 1,200,491	$ N/A	$ N/A	$ N/A	$ N/A	$ N/A	$ N/A	$ N/A
State's proportionate share of the net pension liability (asset) associated with the District	970,574	875,211	934,989	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total	$ 2,622,267	$ 2,248,055	$ 2,135,480	$ N/A	$ N/A	$ N/A	$ N/A	$ N/A	$ N/A	$ N/A
District's covered-employee payroll	$ 1,116,572	$ 1,014,599	$ 942,334	$ N/A	$ N/A	$ N/A	$ N/A	$ N/A	$ N/A	$ N/A
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	147.93%	135.31%	127.40%	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Plan fiduciary net position as a percentage of the total pension liability	70.04%	74.02%	76.52%	N/A	N/A	N/A	N/A	N/A	N/A	N/A

* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this schedule provides the information only for those years for which information is available.

See Accompanying Notes to Required Supplementary Information

EXHIBIT B-3

VALLECITOS SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS
CALIFORNIA STATE TEACHERS RETIREMENT SYSTEM
LAST TEN FISCAL YEARS *

	Fiscal Year									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Contractually required contribution	$ 140,465	$ 108,866	$ 83,679	$ N/A	$ N/A	$ N/A	$ N/A	$ N/A	$ N/A	$ N/A
Contributions in relation to the contractually required contribution	(140,465)	(108,866)	(83,679)	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Contribution deficiency (excess)	$ --	$ --	$ --	$ N/A	$ N/A	$ N/A	$ N/A	$ N/A	$ N/A	$ N/A
District's covered-employee payroll	$ 1,116,572	$ 1,014,599	$ 942,334	$ N/A	$ N/A	$ N/A	$ N/A	$ N/A	$ N/A	$ N/A
Contributions as a percentage of covered-employee payroll	12.58%	10.73%	8.88%	N/A	N/A	N/A	N/A	N/A	N/A	N/A

* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this schedule provides the information for those years for which information is available.

See Accompanying Notes to Required Supplementary Information

EXHIBIT B-3

VALLECITOS SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
CALIFORNIA PUBLIC EMPLOYEE's RETIREMENT SYSTEM
LAST TEN FISCAL YEARS *

	Fiscal Year									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
District's proportion of the net pension liability (asset)	0.0024%	0.0026%	0.0026%	N/A	N/A	N/A	N/A	N/A	N/A	N/A
District's proportionate share of the net pension liability (asset)	$ 471,287	$ 376,674	$ 294,806	$ N/A	$ N/A	$ N/A	$ N/A	$ N/A	$ N/A	$ N/A
District's covered-employee payroll	$ 326,044	$ 288,968	$ 284,181	$ N/A	$ N/A	$ N/A	$ N/A	$ N/A	$ N/A	$ N/A
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	144.55%	130.35%	103.74%	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Plan fiduciary net position as a percentage of the total pension liability	73.90%	79.43%	83.38%	N/A	N/A	N/A	N/A	N/A	N/A	N/A

* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this schedule provides the information only for those years for which information is available.

See Accompanying Notes to Required Supplementary Information

VALLECITOS SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS
CALIFORNIA PUBLIC EMPLOYEE's RETIREMENT SYSTEM
LAST TEN FISCAL YEARS *

	Fiscal Year									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Contractually required contribution	$ 45,281	$ 34,234	$ 33,451	$ N/A	$ N/A	$ N/A	$ N/A	$ N/A	$ N/A	$ N/A
Contributions in relation to the contractually required contribution	(45,281)	(34,234)	(33,451)	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Contribution deficiency (excess)	$ --	$ --	$ --	$ N/A	$ N/A	$ N/A	$ N/A	$ N/A	$ N/A	$ N/A
District's covered-employee payroll	$ 326,044	$ 288,968	$ 284,181	$ N/A	$ N/A	$ N/A	$ N/A	$ N/A	$ N/A	$ N/A
Contributions as a percentage of covered-employee payroll	13.89%	11.85%	11.77%	N/A	N/A	N/A	N/A	N/A	N/A	N/A

* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this schedule provides the information only for those years for which information is available.

See Accompanying Notes to Required Supplementary Information

Budgetary Comparison Schedule - General Fund

As described in Note A to these financial statements, for purposes of reporting in conformity with GASB Statement No.54, the District's Special Reserve Fund for Capital Outlay (Fund 17) was included with the General Fund. The Budgetary Comparison Schedule included in the Required Supplementary Information is based on the legally adopted budget for the General Fund only.

General Fund - Fund Financial Statements Ending Fund Balance	$	952,716
Less Fund 20 Fund Balance		75,798
General Fund - Budgetary Comparison Schedule Ending Fund Balance	$	876,918

General Fund - Fund Financial Statements Net Change in Fund Balance	$	189,886
Change in Fund Balnce attributed to Fund 20		(771)
General Fund - Budgetary Comparison Schedule Change in Fund Balance	$	189,115

Schedule of District's Proportionate Share - California State Teachers Retirement System

1) Benefit Changes: In 2015, 2016 & 2017 there were no changes to benefits

2) Changes in Assumptions: In 2015, 2016 & 2017 there were no changes in assumptions

Schedule of District's Contributions - California State Teachers Retirement System

The total pension liability was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2014 & 2015, and rolling forward the total pension liability to June 30, 2015 & 2016. The financial reporting actuarial valuation as of June 30, 2014, June 30, 2015, and June 30, 2016 used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2014	June 30, 2015	June 30, 2016
Experience Study	07/01/06 - 06/30/10	07/01/07 - 06/30/11	07/01/08 - 06/30/12
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Entry Age Normal
Investment Rate of Return	7.60%	7.60%	7.60%
Consumer Price Inflation	3.00%	3.00%	3.00%
Wage Growth (Average)	3.75%	3.75%	3.75%
Post-retirement Benefit Increases	2.00% Simple	2.00% Simple	2.00% Simple

CalSTRS uses custom mortality tables to best fit the patterns of mortality among its RP2000 series tables adjusted to fit CalSTRS experience. RP 2000 series tables are an industry standard of mortality rates published by the Society of Actuaries. See CalSTRS July 1, 2006 - June 30, 2010, July 1, 2007 - June 30, 2011 and July 1, 2008 - June 30, 2012 Experience Analysis for more information.

Schedule of District's Proportionate Share - California Public Employees Retirement System

1) Benefit Changes: In 2015, 2016 & 2017 there were no changes to benefits

2) Changes in Assumptions: In 2015 and 2017 there were no changes in assumptions. In 2016 the discount rate was changed from 7.5% to 7.65% to correct for an adjustment to exclude administrative expense

Schedule of District's Contributions - California Public Employees' Retirement System

The total pension liability was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2014 & 2015, and rolling forward the total pension liability to June 30, 2015 & 2016**.** The financial reporting actuarial valuation as of June 30, 2014, June 30, 2015, and June 30, 2016 used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2014	June 30, 2015	June 30, 2015
Experience Study	07/01/96 - 06/30/10	07/01/97 - 06/30/11	07/01/97 - 06/30/12
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Entry Age Normal
Investment Rate of Return	7.50%	7.50%	7.50%
Consumer Price Inflation	2.75%	2.75%	2.75%
Wage Growth (Average)	3.00%	3.00%	3.00%
Post-retirement Benefit Increases	2.00% Simple	2.00% Simple	2.00% Simple

The mortality table used was developed based on CalPERS specific data. The table includes 20 years of mortality improvements using the Society of Actuaries Scale BB. For more details on this table, please refer to the April 2013 experience study (based on demographic data from 1996 through 2010), the April 2014 experience study (based on demographic data from 1997 to 2011) and the April 2015 experience study (based on demographic data from 1998 to 2012) available on the CalPERS website.

Combining Statements and Budget Comparisons as Supplementary Information

This supplementary information includes financial statements and schedules not required by the Governmental Accounting Standards Board, nor a part of the basic financial statements, but are presented for purposes of additional analysis.

VALLECITOS SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2017

	Special Revenue Fund	Capital Projects Fund	
	Child Development Fund	Capital Facilities Fund	Total Nonmajor Governmental Funds (See Exhibit A-3)
ASSETS:			
Cash in County Treasury	$ 4,211	$ 20,769	$ 24,980
Accounts Receivable	4,031	2,002	6,033
Total Assets	8,242	22,771	31,013
LIABILITIES AND FUND BALANCE:			
Liabilities:			
Accounts Payable	$ 313	$ 38	$ 351
Due to Other Funds	4,000	--	4,000
Total Liabilities	4,313	38	4,351
Fund Balance:			
Restricted Fund Balances	3,929	--	3,929
Assigned Fund Balances	--	22,733	22,733
Total Fund Balance	3,929	22,733	26,662
Total Liabilities and Fund Balances	$ 8,242	$ 22,771	$ 31,013

VALLECITOS SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	Special Revenue Fund	Capital Projects Fund	
	Child Development Fund	Capital Facilities Fund	Total Nonmajor Governmental Funds (See Exhibit A-5)
Revenues:			
Other State Revenue	$ 91,183	$ --	$ 91,183
Other Local Revenue	119	9,863	9,982
Total Revenues	91,302	9,863	101,165
Expenditures:			
Current:			
Instruction	92,748	--	92,748
Plant Services	--	30,463	30,463
Total Expenditures	92,748	30,463	123,211
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,446)	(20,600)	(22,046)
Net Change in Fund Balance	(1,446)	(20,600)	(22,046)
Fund Balance, July 1	5,375	43,333	48,708
Fund Balance, June 30	$ 3,929	$ 22,733	$ 26,662

Other Supplementary Information

This section includes financial information and disclosures not required by the Governmental Accounting Standards Board and not considered a part of the basic financial statements. It may, however, include information which is required by other entities.

Supplementary Information Section

VALLECITOS SCHOOL DISTRICT
LOCAL EDUCATION AGENCY
ORGANIZATION STRUCTURE
JUNE 30, 2017

The Vallecitos School District was established in 1921 and is comprised of approximatley 618.6 square miles, located in San Diego County. There were no changes to the boundaries of the District during the fiscal year. The District currently operates one elementary school (K-8) and is the chartering agency for one K-12 charter school, the Taylion San Diego Academy (#1559).

Governing Board

Name	Office	Term and Term Expiration
Michael Darnley	President	Four Year Term Expiring December 2018
Michelle LaLonde	Vice President	Two Year Term Expiring December 2018
Rae Lynn Heilbronn	Clerk	Four Year Term Expiring December 2020
Martin Kurland	Trustee	Two Year Term Expiring December 2018
Paul Georgantas	Trustee	Two Year Term Expiring December 2018

Administration

David Jones
Superintendent/Principal

Linda Miller
Business Manager

VALLECITOS SCHOOL DISTRICT

TABLE D-1

SCHEDULE OF AVERAGE DAILY ATTENDANCE
YEAR ENDED JUNE 30, 2017

	Second Period Report		Annual Report	
	Original	Revised	Original	Revised
TK/K-3:				
Regular ADA	95.50	N/A	94.80	N/A
TK/K-3 Totals	95.50	N/A	94.80	N/A
Grades 4-6:				
Regular ADA	61.19	N/A	61.49	N/A
Grades 4-6 Totals	61.19	N/A	61.49	N/A
Grades 7 and 8:				
Regular ADA	42.01	N/A	42.54	N/A
Grades 7 and 8 Totals	42.01	N/A	42.54	N/A
ADA Totals	198.70	N/A	198.83	N/A

N/A - There were no audit findings which resulted in necessary revisions to attendance.

Average daily attendance is a measurement of the number of pupils attending classes of the district or charter school. 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 and charter schools. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

Grade Level	Ed. Code 46207 Minutes Requirement	2016-17 Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
Transitional Kindergarten	36,000	42,201	180	--	Complied
Kindergarten	36,000	42,201	180	--	Complied
Grade 1	50,400	57,031	180	--	Complied
Grade 2	50,400	57,031	180	--	Complied
Grade 3	50,400	57,031	180	--	Complied
Grade 4	54,000	58,326	180	--	Complied
Grade 5	54,000	58,326	180	--	Complied
Grade 6	54,000	58,326	180	--	Complied
Grade 7	54,000	58,326	180	--	Complied
Grade 8	54,000	58,326	180	--	Complied

School districts and charter schools must maintain their instructional minutes as defined in Education Code Section 46207. This schedule is required of all districts, including basic aid districts.

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. This schedule presents information on the amount of instruction time offered by the District and whether the District complied with the provisions of Education Code Sections 46200 through 46206. The District met or exceeded its target funding.

VALLECITOS SCHOOL DISTRICT **TABLE D-3**

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
YEAR ENDED JUNE 30, 2017

General Fund	Budget 2018 (see note 1)	2017 (see note 4)	2016	2015
Revenues and other financial sources	$ 2,713,939	$ 2,871,937	$ 2,747,646	$ 2,480,766
Expenditures	2,710,165	2,682,822	2,528,094	2,383,355
Other uses and transfers out	--	--	75,000	8,008
Total outgo	2,710,165	2,682,822	2,603,094	2,391,363
Change in fund balance (deficit)	3,774	189,115	144,552	89,403
Ending fund balance	$ 880,692	$ 876,918	$ 762,831	$ 618,279
Available reserves (see note 2)	$ 869,192	$ 812,725	$ 461,239	$ 461,239
Available reserves as a percentage of total outgo (see note 3)	32.1%	30.3%	17.7%	19.3%
Total long-term debt	$ 2,122,980	$ 2,122,980	$ 2,618,160	$ 2,250,212
Average daily attendance at P-2	199	199	189	187

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.

The fund balance of the general fund has increased by $189,115 during the 2016-17 fiscal year. The fiscal year 2017-18 budget projects an increase of $3,744. For a district of this size, the State recommends available reserves of at least 5% of total general fund expenditures, transfers out and other uses (total outgo),

Long-term debt has decreased by $127,232 over the past two years.

Average daily attendance has increased by 12 over the past two years.

NOTES:
1. Budget 2018 is included for analytical purposes only and has not been subjected to audit.
2. Available reserves consist of all unassigned fund balances and all funds reserved for economic uncertainties contained within the General Fund.
3. On behalf payments of $80,803 has been excluded from the calculation of available reserves for the fiscal year ending June 30, 2017.
4. Due to a change in the presentation of the Financial Trends as a result of implementating GASB 54 the 2017 amounts shown are not comparable to 2016 and 2015 due to the amounts previously shown by the previous auditors had not reflected the affect of GASB54.

VALLECITOS SCHOOL DISTRICT

TABLE D-4

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET
REPORT WITH AUDITED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

	General Fund	Special Reserve Fund for Capital Outlay
June 30, 2017, annual financial and budget report fund balances	$ 876,918	$ 75,798
Adjustments and reclassifications:		
Increasing (decreasing) the fund balance:		
GASB 54 presentation	75,798	(75,798)
Net adjustments and reclassifications	75,798	(75,798)
June 30, 2017, audited financial statement fund balances	$ 952,716	$ --

	Schedule of Long-Term Debt
June 30, 2017, annual financial and budget report total liabilities	$ 79,803
Adjustments and reclassifications:	
Increase (decrease) in total liabilities:	
Net Pension Liabilityunderstatement	2,058,574
Compensated absences overstatement	(15,397)
Net adjustments and reclassifications	2,043,177
June 30, 2017, audited financial statement total liabilities	$ 2,122,980

This schedule provides the information necessary to reconcile the fund balances of all funds and the total liabilities balance of the general long-term debt account group as reported on the SACS report to the audited financial statements. Funds that required no adjustment are not presented.

The following charter schools are chartered by Vallecitos School District:

Charter Schools	Included In Audit?
Taylion San Diego Academy (#1559)	No

Other Independent Auditor's Reports

P. Robert Wilkinson, CPA
Brian K. Hadley, CPA

WILKINSON HADLEY KING & CO. LLP
CPAs AND ADVISORS

Aubrey W. King, CPA
Kevin A. Sproul, CPA

Independent Auditor's Report on Internal Control over Financial Reporting and On Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance With *Government Auditing Standards*

Board of Trustees
Vallecitos School District
Fallbrook, California 92028

Members of the Board of Trustees:

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 Vallecitos School District, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Vallecitos School District's basic financial statements, and have issued our report thereon dated December 8, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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Purpose of this Report

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

Wilkinson Hadley King & Co., LLP

El Cajon, California
December 8, 2017

P. Robert Wilkinson, CPA
Brian K. Hadley, CPA

WILKINSON HADLEY KING & CO. LLP
CPAs AND ADVISORS

Aubrey W. King, CPA
Kevin A. Sproul, CPA

Independent Auditor's Report on State Compliance

Board of Trustees
Vallecitos School District
Fallbrook, California 92028

Members of the Board of Trustees:

Report on State Compliance

We have audited the District's compliance with the types of compliance requirements described in the *2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting,* prescribed in Title 5, *California Code of Regulations,* Section 19810 that could have a direct and material effect on each of the District's state programs identified below for the fiscal year ended June 30, 2017.

Management's Responsibility for State Compliance

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each applicable program as identified in the State's audit guide, *2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* prescribed in Title 5, *California Code of Regulations,* Section 19810. 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 State's audit guide, *2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting,* prescribed in Title 5, *California Code of Regulations,* Section 19810. Those standards and audit guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on the state programs noted below occurred. An audit includes examining, on a test basis, evidence about the 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. Our audit does not provide a legal determination of the District's compliance with those requirements.

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:

Compliance Requirements	Procedures in Audit Guide Performed?
LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS:	
Attendance Accounting:	
Attendance Reporting	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	N/A
Continuation Education	N/A

Instructional Time	Yes
Instructional Materials	Yes
Ratio of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	N/A
GANN Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	N/A
Middle or Early College High Schools	N/A
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
Mental Health Expenditures	Yes

SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS:

Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After School Education and Safety Program:	
After School	Yes
Before School	Yes
General Requirements	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	N/A
Immunizations	Yes

CHARTER SCHOOLS:

Attendance	N/A
Mode of Instruction	N/A
Nonclassroom-Based Instruction/Independent Study	N/A
Determination of Funding for Nonclassroom-Based Instruction	N/A
Annual Instructional Minutes - Classroom Based	N/A
Charter School Facility Grant Program	N/A

The term "N/A" is used above to mean either the District did not offer the program during the current fiscal year or the program applies to a different type of local education agency.

Opinion on State Compliance

In our opinion, Vallecitos School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the statutory requirements listed in the schedule above for the year ended June 30, 2017.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion of the effectiveness of the entity's internal control or on compliance outside of the items tested as noted above. This report is an integral part of an audit performed in accordance with the *2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* prescribed in Title 5, *California Code of Regulations,* Section 19810 in considering the entity's compliance. Accordingly, this communication is not suitable for any other purpose.

Wilkinson Hadley King & Co., LLP

El Cajon, California
December 8, 2017

Findings and Recommendations Section

VALLECITOS SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued:	Unmodified	
Internal control over financial reporting:		
One or more material weaknesses identified?	____ Yes	X No
One or more significant deficiencies identified that are not considered to be material weaknesses?	____ Yes	X None Reported
Noncompliance material to financial statements noted?	____ Yes	X No

2. Federal Awards

Internal control over major programs:		
One or more material weaknesses identified?	____ Yes	X Not Applicable
One or more significant deficiencies identified that are not considered to be material weaknesses?	____ Yes	X Not Applicable
Type of auditor's report issued on compliance for major programs:	Not Applicable	
Any audit findings disclosed that are required to be reported in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200?	____ Yes	X Not Applicable

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
Not Applicable	Not Applicable

Dollar threshold used to distinguish between type A and type B programs:	$750,000	
Auditee qualified as low-risk auditee?	____ Yes	X Not Applicable

3. State Awards

Any audit findings disclosed that are required to be reported in accordance with the state's Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting?	____ Yes	X No
Type of auditor's report issued on compliance for state programs:	Unmodified	

B. Financial Statement Findings

NONE

C. Federal Award Findings and Questioned Costs

NONE

D. State Award Findings and Questioned Costs

NONE

VALLECITOS SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017

Finding/Recommendation	Current Status	Management's Explanation If Not Implemented
Finding 2016-001 Teacher Missasignments One kindergarten teacher was found to not posses a valid certification document to provide services to English learners Recommend the District, as part of their hiring process, ensure that all new hires posses the requiored certifications.	Implemented	