

ADELANTO ELEMENTARY SCHOOL DISTRICT
AUDIT REPORT
For the Fiscal Year Ended
June 30, 2018



ADELANTO ELEMENTARY SCHOOL DISTRICT
For the Fiscal Year Ended June 30, 2018
Table of Contents

FINANCIAL SECTION

	<u>Page</u>
Independent Auditors' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	12
Statement of Activities.....	13
Governmental Funds Financial Statements:	
Balance Sheet.....	14
Reconciliation of the Governmental Funds Balance Sheet to the	
Statement of Net Position.....	15
Statement of Revenues, Expenditures, and Changes in Fund Balances.....	16
Reconciliation of the Governmental Funds Statement of Revenues,	
Expenditures, and Changes in Fund Balances to the Statement of Activities.....	17
Fiduciary Fund Financial Statement:	
Statement of Fiduciary Net Position.....	18
Notes to Financial Statements	19

REQUIRED SUPPLEMENTARY INFORMATION

Budgetary Comparison Schedule – General Fund.....	51
Budgetary Comparison Schedule – Cafeteria Fund	52
Schedule of Proportionate Share of the Net Pension Liability	53
Schedule of Pension Contributions.....	54
Schedule of Changes in the District's Total OPEB Liability and Related Ratios	55
Schedule of Changes in the District's Total OPEB Liability and Related Ratios-MPP Program.....	56
Notes to the Required Supplementary Information	57

SUPPLEMENTARY INFORMATION

Local Educational Agency Organization Structure	58
Schedule of Average Daily Attendance	59
Schedule of Instructional Time	60
Schedule of Financial Trends and Analysis.....	61
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements.....	62
Schedule of Expenditures of Federal Awards	63
Schedule of Charter Schools	64
Note to the Supplementary Information.....	65

ADELANTO ELEMENTARY SCHOOL DISTRICT
For the Fiscal Year Ended June 30, 2018
Table of Contents

OTHER INDEPENDENT AUDITORS' REPORTS

Page

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.....66

Independent Auditors' Report on State Compliance68

Independent Auditors' Report on Compliance For Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance70

FINDINGS AND QUESTIONED COSTS

Schedule of Audit Findings and Questioned Costs:

 Summary of Auditors' Results72

 Current Year Audit Findings and Questioned Costs73

 Summary Schedule of Prior Audit Findings77

Management Representation Letter79

Financial Section

(This page intentionally left blank)



INDEPENDENT AUDITORS' REPORT

Board of Trustees
Adelanto Elementary School District
Adelanto, California

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

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

Change in Accounting Principle

As discussed in Note 1.I. to the basic financial statements, the District has changed its method for accounting and reporting for postemployment benefits other than pensions during fiscal year 2017-18 due to the adoption of Governmental Accounting Standards Board Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions". The adoption of this standard required retrospective application resulting in a \$10,231,404 reduction of previously reported net position at July 1, 2017. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements. The supplementary information on pages 59 to 62 and the schedule of expenditures of federal awards on page 63 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole. The information on pages 58 and 64 have not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2018, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Nigro + Nigro, PC.

Murrieta, California
November 19, 2018

ADELANTO ELEMENTARY SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2018

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

FINANCIAL HIGHLIGHTS

- The District's overall financial status declined from last year, as the net position decreased by 6.7% to \$109.4 million.
- Total governmental revenues were \$103.5 million, \$7.8 million less than expenses.
- The total cost of basic programs was \$111.3 million. Because a portion of these costs was paid for with charges, fees, and intergovernmental aid, the net cost that required taxpayer funding was just \$94.8 million.
- Average daily attendance (ADA) in grades K-8 decreased by 0.43 or .01%.

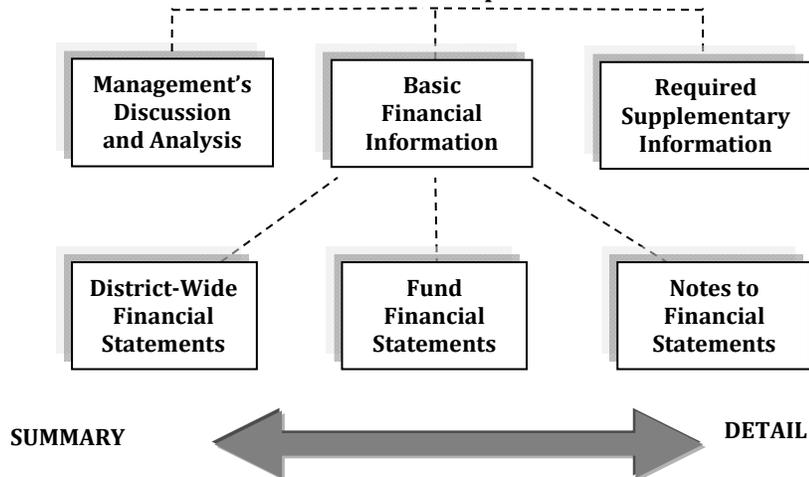
OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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



ADELANTO ELEMENTARY SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2018

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

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

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

Type of Statements	District-Wide	Governmental Funds	Fiduciary Funds
<i>Scope</i>	Entire District, except fiduciary activities	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activities monies
<i>Required financial statements</i>	<ul style="list-style-type: none"> • Statement of Net Position • Statement of Activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures & Changes in Fund Balances 	<ul style="list-style-type: none"> • Statement of Fiduciary Net Position
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
<i>Type of asset/liability information</i>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both short-term and long-term; The District's funds do not currently contain nonfinancial assets, though they can
<i>Type of inflow/outflow information</i>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

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

ADELANTO ELEMENTARY SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2018

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

District-Wide Statements

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

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

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

Fund Financial Statements

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

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

The District has two kinds of funds:

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

ADELANTO ELEMENTARY SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2018

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position. The District's combined net position was lower on June 30, 2018, than it was the year before – decreasing 6.7% to \$109.4 million (See Table A-1).

Table A-1: Statement of Net Position

	Governmental Activities		Variance Increase (Decrease)
	2018	2017*	
Assets			
Current assets	\$ 50,731,535	\$ 47,934,319	\$ 2,797,216
Capital assets	172,209,090	177,806,526	(5,597,436)
Total assets	222,940,625	225,740,845	(2,800,220)
Deferred outflows of resources	32,364,212	23,578,323	8,785,889
Liabilities			
Current liabilities	8,353,401	6,566,832	1,786,569
Long-term liabilities	49,458,938	50,392,090	(933,152)
Net pension liability	85,091,970	71,316,401	13,775,569
Total liabilities	142,904,309	128,275,323	14,628,986
Deferred inflows of resources	2,966,599	3,781,066	(814,467)
Net position			
Net investment in capital assets	157,077,921	161,277,581	(4,199,660)
Restricted	24,483,153	22,973,547	1,509,606
Unrestricted	(72,127,145)	(66,988,349)	(5,138,796)
Total net position	\$ 109,433,929	\$ 117,262,779	\$ (7,828,850)

* As restated

Changes in net position, governmental activities. The District's total revenues increased 0.3% to \$103.5 million (See Table A-2). The increase is due primarily to increases in general revenues and federal and state aid.

The total cost of all programs and services increased 6.8% to \$111.3 million. The District's expenses are predominantly related to educating and caring for students, 76.3%. The purely administrative activities of the District accounted for just 5.3% of total costs. A significant contributor to the increase in costs was instruction-related sources and pupil service costs.

ADELANTO ELEMENTARY SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2018

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (continued)

Table A-2: Statement of Activities

	Governmental Activities		Variance Increase (Decrease)
	2018	2017	
Revenues			
Program Revenues:			
Charges for services	\$ 798,734	\$ 931,561	\$ (132,827)
Operating grants and contributions	16,623,173	16,552,086	71,087
Capital grants and contributions	(880,347)	64,052	(944,399)
General Revenues:			
Federal and state aid not restricted	77,153,034	76,593,333	559,701
Property taxes	8,854,032	8,236,240	617,792
Other general revenues	951,529	787,712	163,817
Total Revenues	103,500,155	103,164,984	335,171
Expenses			
Instruction-related	70,215,047	64,989,657	5,225,390
Pupil services	14,743,789	13,366,130	1,377,659
Administration	5,876,924	6,569,618	(692,694)
Plant services	10,063,975	9,416,701	647,274
All other activities	10,429,270	9,869,170	560,100
Total Expenses	111,329,005	104,211,276	7,117,729
Increase (decrease) in net position	<u>\$ (7,828,850)</u>	<u>\$ (1,046,292)</u>	<u>\$ (6,782,558)</u>
Total net position	<u>\$ 109,433,929</u>	<u>\$ 117,262,779</u>	

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed this year, its governmental funds reported a combined fund balance of \$42.5 million, which is above last year's ending fund balance of \$41.5 million. The primary cause of the increased fund balance is an increase in the General Fund and the Deferred Maintenance Fund from state aid.

Table A-3: The District's Fund Balances

Fund	Fund Balances				
	July 1, 2017	Revenues	Expenditures	Other Sources and (Uses)	June 30, 2018
General Fund	\$ 23,539,359	\$ 96,317,308	\$ 94,112,151	\$ (1,540,000)	\$ 24,204,516
Cafeteria Fund	3,431,609	5,806,351	5,853,410	-	3,384,550
Deferred Maintenance Fund	776,382	13,700	520,891	1,500,000	1,769,191
Special Reserve Fund (Other Than Capital Outlay)	461	6	-	-	467
Capital Facilities Fund	879,038	746,309	1,400	(519,366)	1,104,581
County School Facilities Fund	7,521,862	(880,346)	-	-	6,641,516
Capital Outlay Fund for Blended Component Units	354,367	2,854	-	-	357,221
Bond Interest and Redemption Fund	4,188,685	3,771,144	3,729,629	-	4,230,200
Debt Service Fund for Blended Component Units	800,298	7,900	559,584	559,366	807,980
Self-Insurance Fund	1,521	19	-	-	1,540
	<u>\$ 41,493,582</u>	<u>\$ 105,785,245</u>	<u>\$ 104,777,065</u>	<u>\$ -</u>	<u>\$ 42,501,762</u>

ADELANTO ELEMENTARY SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2018

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (continued)

General Fund Budgetary Highlights

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

- Revenues – increased by \$8.0 million primarily to reflect federal and state budget actions.
- Salaries and benefits costs – increased about \$3.1 million due to negotiated increases.
- Other non-capital expenditures – increased \$0.4 million to revise operational cost estimates.

While the District's final budget for the General Fund anticipated that revenues would fall short of expenditures by about \$0.6 million, the actual results for the year show that revenues exceeded expenditures by roughly \$2.2 million. Actual revenues were \$2,748 less than anticipated, and expenditures were \$2.8 million less than budgeted. That amount consists primarily of restricted categorical program dollars that were not spent as of June 30, 2018, that will be carried over into the 2018-19 budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2017-18 the District had invested \$0.6 million in new capital assets, related to capital lease acquisitions. (More detailed information about capital assets can be found in Note 6 to the financial statements). Total depreciation expense for the year was \$6.2 million.

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

	Governmental Activities		Variance Increase (Decrease)
	2018	2017	
Land	\$ 17,806,485	\$ 17,806,485	\$ -
Improvement of sites	1,151,407	1,408,100	(256,693)
Buildings	150,234,843	155,569,239	(5,334,396)
Equipment	3,016,355	3,022,702	(6,347)
Total	\$ 172,209,090	\$ 177,806,526	\$ (5,597,436)

Long-Term Debt

At year-end the District had \$49.5 million in general obligation bonds, certificates of participation, capital leases, and retirement benefits – a decrease of 1.9% from last year – as shown in Table A-5. (More detailed information about the District's long-term liabilities is presented in Note 7 to the financial statements).

ADELANTO ELEMENTARY SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2018

CAPITAL ASSET AND DEBT ADMINISTRATION (continued)

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

	Governmental Activities		Variance Increase (Decrease)
	2018	2017*	
General obligation bonds	\$ 20,034,268	\$ 21,719,257	\$ (1,684,989)
Certificates of participation	8,369,136	8,543,548	(174,412)
Compensated absences	854,982	676,314	178,668
Capital leases	926,167	1,214,736	(288,569)
Early retirement incentives	767,953	1,234,570	(466,617)
Other postemployment benefits	18,506,432	17,003,665	1,502,767
Total	\$ 49,458,938	\$ 50,392,090	\$ (933,152)

* As restated

FACTORS BEARING ON THE DISTRICT'S FUTURE

The 2018-19 State Budget

Final Budget Package Includes \$15.9 Billion in Total Reserves

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

Overall Spending

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

Considerable New Spending on Education

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

ADELANTO ELEMENTARY SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2018

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

The 2018-19 State Budget (continued)

Proposition 98 Establishes Minimum Spending Level

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

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

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

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

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

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

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

Package Includes Mix of Ongoing and One-Time Spending

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

ADELANTO ELEMENTARY SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2018

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

The 2018-19 State Budget (continued)

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

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

Funds One-Time Discretionary Grants

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

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. Questions concerning this report or requests for additional information should be addressed to:

Business Services
Adelanto Elementary School District
11824 Air Expressway
Adelanto, CA 92301
(760) 246-8691

ADELANTO ELEMENTARY SCHOOL DISTRICT
Statement of Net Position
June 30, 2018

	Total Governmental Activities
ASSETS	
Cash	\$ 45,789,166
Accounts receivable	4,691,173
Inventories	236,015
Prepaid expenses	15,181
Capital assets:	
Non-depreciable assets	17,806,485
Depreciable assets	226,017,316
Less accumulated depreciation	<u>(71,614,711)</u>
Total assets	<u>222,940,625</u>
 DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to pensions	<u>32,364,212</u>
 LIABILITIES	
Accounts payable	8,353,401
Long-term debt:	
Portion due or payable within one year	4,074,879
Portion due or payable after one year	45,384,059
Net pension liability	<u>85,091,970</u>
Total liabilities	<u>142,904,309</u>
 DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to pensions	<u>2,966,599</u>
 NET POSITION	
Net investment in capital assets	157,077,921
Restricted for:	
Capital projects	7,746,097
Debt service	5,038,180
Categorical programs	11,698,876
Unrestricted	<u>(72,127,145)</u>
Total net position	<u><u>\$ 109,433,929</u></u>

ADELANTO ELEMENTARY SCHOOL DISTRICT

Statement of Activities

For the Fiscal Year Ended June 30, 2018

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
Instructional services:					
Instruction	\$ 58,330,717	\$ -	\$ 5,685,861	\$ (880,347)	\$ (53,525,203)
Instruction-related services:					
Supervision of instruction	2,056,395	-	383,258	-	(1,673,137)
Instructional library, media and technology	1,231,436	-	500,946	-	(730,490)
School site administration	8,596,499	-	1,403,903	-	(7,192,596)
Pupil support services:					
Home-to-school transportation	3,684,689	-	-	-	(3,684,689)
Food services	5,595,441	58,160	5,461,657	-	(75,624)
All other pupil services	5,463,659	1,503	556,308	-	(4,905,848)
General administration services:					
Data processing services	743,562	-	-	-	(743,562)
Other general administration	5,133,362	2,904	525,826	-	(4,604,632)
Plant services	10,063,975	141	2,007,382	-	(8,056,452)
Community services	217,436	-	43,261	-	(174,175)
Interest on long-term debt	2,468,862	-	-	-	(2,468,862)
Other outgo	1,530,653	736,026	54,771	-	(739,856)
Depreciation (unallocated)	6,212,319	-	-	-	(6,212,319)
Total Governmental Activities	\$ 111,329,005	\$ 798,734	\$ 16,623,173	\$ (880,347)	(94,787,445)
General Revenues:					
Property taxes					8,854,032
Federal and state aid not restricted to specific purpose					77,153,034
Interest and investment earnings					267,720
Interagency revenues					187,267
Miscellaneous					496,542
Total general revenues					86,958,595
Change in net position					(7,828,850)
Net position, July 1, 2017, as originally stated					125,413,167
Restatement - change in accounting principle					(10,231,404)
Adjustment for restatement (Note 13)					2,081,016
Net position, July 1, 2017, as restated					117,262,779
Net position, June 30, 2018					\$ 109,433,929

ADELANTO ELEMENTARY SCHOOL DISTRICT
Balance Sheet – Governmental Funds
June 30, 2018

	General Fund	Cafeteria Fund	County School Facilities Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS					
Cash	\$ 27,661,810	\$ 2,779,968	\$ 6,614,952	\$ 8,732,436	\$ 45,789,166
Accounts receivable	3,370,765	1,285,258	26,564	8,586	4,691,173
Due from other funds	687,895	1,258	-	40,000	729,153
Inventories	101,695	134,320	-	-	236,015
Prepaid expenditures	13,447	1,734	-	-	15,181
Total Assets	<u>\$ 31,835,612</u>	<u>\$ 4,202,538</u>	<u>\$ 6,641,516</u>	<u>\$ 8,781,022</u>	<u>\$ 51,460,688</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 7,587,831	\$ 130,093	\$ -	\$ 511,849	\$ 8,229,773
Due to other funds	41,258	687,895	-	-	729,153
Total Liabilities	<u>7,629,089</u>	<u>817,988</u>	<u>-</u>	<u>511,849</u>	<u>8,958,926</u>
Fund Balances					
Nonspendable	175,142	136,974	-	-	312,116
Restricted	8,314,326	3,247,576	6,641,516	6,142,761	24,346,179
Committed	-	-	-	1,769,191	1,769,191
Assigned	184,467	-	-	357,221	541,688
Unassigned	15,532,588	-	-	-	15,532,588
Total Fund Balances	<u>24,206,523</u>	<u>3,384,550</u>	<u>6,641,516</u>	<u>8,269,173</u>	<u>42,501,762</u>
Total Liabilities and Fund Balances	<u>\$ 31,835,612</u>	<u>\$ 4,202,538</u>	<u>\$ 6,641,516</u>	<u>\$ 8,781,022</u>	<u>\$ 51,460,688</u>

ADELANTO ELEMENTARY SCHOOL DISTRICT

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

Total fund balances - governmental funds \$ 42,501,762

Amounts reported for governmental *activities* in the statement of net position are different because capital assets used for governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$243,823,801, and the accumulated depreciation is (\$71,614,711). 172,209,090

In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statements, it is recognized in the period that it is incurred. The additional liability for unmaturing interest owing at the end of the period was: (123,628)

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

General obligation bonds payable	20,034,268	
Certificates of participation payable	8,369,136	
Compensated absences payable	854,982	
Capital leases payable	926,167	
Early retirement incentive	767,953	
Other postemployment benefits	<u>18,506,432</u>	(49,458,938)

The net pension liability is not due and payable in the current reporting period, and therefore is not reported as a liability in the fund financial statements. (85,091,970)

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 and inflows of resources relating to pensions consist of:

Total deferred outflows	32,364,212	
Total deferred inflows	<u>(2,966,599)</u>	<u>29,397,613</u>

Total net position - governmental activities \$ 109,433,929

ADELANTO ELEMENTARY SCHOOL DISTRICT

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

	General Fund	Cafeteria Fund	County School Facilities Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES					
LCFF sources	\$ 78,354,465	\$ -	\$ -	\$ -	\$ 78,354,465
Federal sources	5,919,234	5,337,098	-	-	11,256,332
Other state sources	9,887,156	372,218	(970,299)	29,695	9,318,770
Other local sources	2,156,478	97,035	89,953	4,512,212	6,855,678
Total Revenues	96,317,333	5,806,351	(880,346)	4,541,907	105,785,245
EXPENDITURES					
Current:					
Instruction	57,743,561	-	-	-	57,743,561
Instruction-related services:					
Supervision of instruction	2,046,582	-	-	-	2,046,582
Instructional library, media and technology	1,100,318	-	-	-	1,100,318
School site administration	7,476,457	-	-	-	7,476,457
Pupil support services:					
Home-to-school transportation	3,391,291	-	-	-	3,391,291
Food services	1,258	5,544,333	-	-	5,545,591
All other pupil services	5,318,421	-	-	-	5,318,421
Community services	213,866	-	-	-	213,866
General administration services:					
Data processing services	694,392	-	-	-	694,392
Other general administration	5,095,888	-	-	-	5,095,888
Plant services	9,395,778	13,988	-	520,891	9,930,657
Transfers of indirect costs	(295,089)	295,089	-	-	-
Intergovernmental transfers	1,530,653	-	-	-	1,530,653
Capital outlay	-	-	-	1,400	1,400
Debt service:					
Principal	288,569	-	-	1,116,942	1,405,511
Interest	110,206	-	-	3,172,271	3,282,477
Total Expenditures	94,112,151	5,853,410	-	4,811,504	104,777,065
Excess (Deficiency) of Revenues Over (Under) Expenditures	2,205,182	(47,059)	(880,346)	(269,597)	1,008,180
OTHER FINANCING SOURCES (USES)					
Interfund transfers in	-	-	-	2,099,366	2,099,366
Interfund transfers out	(1,540,000)	-	-	(559,366)	(2,099,366)
Total Other Financing Sources and Uses	(1,540,000)	-	-	1,540,000	-
Net Change in Fund Balances	665,182	(47,059)	(880,346)	1,270,403	1,008,180
Fund Balances, July 1, 2017	23,541,341	3,431,609	7,521,862	6,998,770	41,493,582
Fund Balances, June 30, 2018	\$ 24,206,523	\$ 3,384,550	\$ 6,641,516	\$ 8,269,173	\$ 42,501,762

ADELANTO ELEMENTARY SCHOOL DISTRICT

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

Total net change in fund balances - governmental funds \$ 1,008,180

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

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

Expenditures for capital outlay	618,736	
Depreciation expense	<u>(6,212,319)</u>	(5,593,583)

In governmental funds, the entire proceeds from disposal of capital assets are reported as revenue. In the statement of activities, only the resulting gain or loss is reported. The difference between the proceeds from disposal of capital assets and the resulting gain or loss is:

(3,853)

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

1,405,511

In governmental funds, accreted interest on capital appreciation bonds is not recorded as expenditures from current resources. In the government-wide statement of activities, however, this is recorded as interest expense for the period. The difference between accreted interest earned and paid during the year was:

753,047

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

(10,588)

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

(1,502,767)

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

466,617

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

2,473

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 the accrual-basis pension costs and actual employer contributions was:

(4,175,219)

In the statement of activities, compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually *paid*).

(178,668)

Change in net position of governmental activities \$ (7,828,850)

ADELANTO ELEMENTARY SCHOOL DISTRICT
Statement of Fiduciary Net Position
June 30, 2018

	Agency Funds	
	Student Body Funds	Debt Service Fund for Special Tax Bonds
Assets		
Cash	\$ 30,113	\$ 4,658,284
Liabilities		
Due to bondholders	\$ -	\$ 4,658,284
Due to student groups	30,113	-
Total Liabilities	\$ 30,113	\$ 4,658,284

ADELANTO ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

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

The following is a summary of the Community Facilities Districts (CFDs) operated by the District:

<u>Date of Formation</u>	<u>Name</u>	<u>Area</u>
April 19, 2005	CFD No. 1	West Creek
September 6, 2005	CFD No. 2	New West
August 2, 2006	CFD No. 3	Griffin Communities
December 4, 2006	CFD No. 4	American Heritage

ADELANTO ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation, Basis of Accounting

1. Basis of Presentation

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

Major Governmental Funds

The District maintains the following major governmental funds:

General Fund: This fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund. The District maintains a Special Reserve Fund for Other Than Capital Outlay Projects and a Self-Insurance Fund. The Special Reserve Fund for Other Than Capital Outlay Projects is not substantially composed of restricted or committed revenue sources. The Self-insurance Fund is not operating as a true Self-Insurance Fund and is not composed of restricted or committed resources. Because these funds do not meet the definition of special revenue funds under GASB 54, the activity of these funds is being reported within the General Fund.

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

County School Facilities Fund: This fund is used primarily to account separately for state apportionments as provided by Ed. Code sections 17009.5 & 17070.10-17076.10.

ADELANTO ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

1. Basis of Presentation (continued)

Non-Major Governmental Funds

The District maintains the following non-major governmental funds:

Special Revenue Funds:

Deferred Maintenance Fund: This fund is used to account for resources committed to major repair or replacement of District property.

Capital Projects Funds:

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

Capital Projects Funds for Blended Component Units: This fund is used to account for the activity of the certificates of participation and of the Community Facilities Districts.

Debt Service Funds:

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

Debt Service Fund for Blended Component Units: This fund is used to account for the debt service activity of the certificates of participation.

Fiduciary Funds

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

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

Debt Service Fund for Special Tax Bonds: This fund is used to account for the debt service activity of the Community Facilities Districts (CFDs).

ADELANTO ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

2. Measurement Focus, Basis of Accounting

Government-Wide and Fiduciary Fund Financial Statements

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

Governmental Fund Financial Statements

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

3. Revenues - Exchange and Non-Exchange Transactions

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

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

ADELANTO ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Budgetary Data

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

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

D. Encumbrances

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

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

1. Cash and Cash Equivalents

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

2. Inventories and Prepaid Items

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

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

3. Capital Assets

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

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

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

ADELANTO ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

4. Unearned Revenue

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

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

5. Deferred Outflows/Inflows of Resources

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

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

6. Compensated Absences

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

7. Postemployment Benefits Other Than Pensions (OPEB)

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

ADELANTO ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

8. Pensions

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

9. Fund Balances

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

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

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

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

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

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

ADELANTO ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

10. Net Position

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

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

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

F. Minimum Fund Balance Policy

Pursuant to GASB Statement No. 54, the District adopted a minimum fund balance policy for the General Fund. Fund balance measures the net financial resources available to finance expenditures of future periods. The District's Unassigned General Fund Balance will be maintained to provide the District with sufficient working capital and a margin of safety to address local and regional emergencies without borrowing. The Unassigned General Fund Balance may only be appropriated by resolution of the Board of Trustees.

The Board of Trustees recognizes that good fiscal management comprises the foundational support of the entire District. To make that support as effective as possible, the Board intends to maintain a minimum fund balance of 8% of the District's general fund annual operating expenditures. If a fund balance drops below 8%, a plan will be developed to replenish the fund balance to the established minimum level within two years.

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

ADELANTO ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Property Tax Calendar

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

H. Use of Estimates

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

I. New GASB Pronouncements

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

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

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

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

ADELANTO ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. New GASB Pronouncements (continued)

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

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

ADELANTO ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 2 - CASH

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

	<u>Governmental Activities/Funds</u>	<u>Fiduciary Funds</u>
Pooled Funds:		
Cash in County Treasury	\$ 44,522,383	\$ -
Deposits:		
Cash on hand and in banks	92,627	30,113
Cash in revolving fund	60,920	-
Cash with fiscal agent	<u>1,113,236</u>	<u>4,658,284</u>
Total Deposits	<u>1,266,783</u>	<u>4,688,397</u>
Total Cash	<u>\$ 45,789,166</u>	<u>\$ 4,688,397</u>

Pooled Funds

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

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

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

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. Cash balances held in banks are insured up to \$250,000 by the Federal Depository Insurance Corporation (FDIC) and are collateralized by the respective financial institutions. In addition, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits.

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

ADELANTO ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 2 – CASH (continued)

Fair Value Measurements

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

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

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

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

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

NOTE 3 – ACCOUNTS RECEIVABLE

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

	General Fund	Cafeteria Fund	County School Facilities Fund	Non-Major Governmental Funds	Total
Federal Government:					
Categorical aid programs	\$ 2,592,792	\$ 1,192,984	\$ -	\$ -	\$ 3,785,776
State Government:					
Lottery	346,942	-	-	-	346,942
Categorical aid programs	175,836	89,201	-	-	265,037
Local:					
Interest	83,642	1,220	26,564	8,586	120,012
Miscellaneous	171,553	1,853	-	-	173,406
Total	<u>\$ 3,370,765</u>	<u>\$ 1,285,258</u>	<u>\$ 26,564</u>	<u>\$ 8,586</u>	<u>\$ 4,691,173</u>

ADELANTO ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 4 - INTERFUND ACTIVITIES

A. Balances Due To/From Other Funds

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

General Fund due to Cafeteria Fund for reimbursement of federal program purchase	\$ 1,258
General fund due to Capital Facilities Fund for contribution to ongoing capital projects	40,000
Cafeteria Fund Due to General Fund for benefits, taxes, fuel and indirect costs	<u>687,895</u>
	<u><u>\$ 729,153</u></u>

B. Transfers To/From Other Funds

Transfers to/from other funds for the fiscal year ended June 30, 2018, consisted of the following:

General Fund to Deferred Maintenance Fund for paving project	\$ 1,500,000
General Fund to Capital Facilities Fund for capital projects	40,000
Capital Facilities Fund transfer to Debt Service Fund for COP payment	<u>559,366</u>
	<u><u>\$ 2,099,366</u></u>

ADELANTO ELEMENTARY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2018

NOTE 5 – FUND BALANCES

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

	General Fund	Cafeteria Fund	County School Facilities Fund	Non-Major Governmental Funds	Total
Nonspendable:					
Revolving cash	\$ 60,000	\$ 920	\$ -	\$ -	\$ 60,920
Stores inventories	101,695	134,320	-	-	236,015
Prepaid expenditures	13,447	1,734	-	-	15,181
Total Nonspendable	175,142	136,974	-	-	312,116
Restricted:					
Categorical programs	8,314,326	-	-	-	8,314,326
Child nutrition program	-	3,247,576	-	-	3,247,576
Capital projects	-	-	6,641,516	1,104,581	7,746,097
Debt service	-	-	-	5,038,180	5,038,180
Total Restricted	8,314,326	3,247,576	6,641,516	6,142,761	24,346,179
Committed:					
Deferred maintenance program	-	-	-	1,769,191	1,769,191
Total Committed	-	-	-	1,769,191	1,769,191
Assigned:					
Other assignments	184,467	-	-	357,221	541,688
Total Assigned	184,467	-	-	357,221	541,688
Unassigned:					
Reserve for economic uncertainties	465	-	-	-	465
Remaining unassigned balances	15,532,123	-	-	-	15,532,123
Total Unassigned	15,532,588	-	-	-	15,532,588
Total	\$ 24,206,523	\$ 3,384,550	\$ 6,641,516	\$ 8,269,173	\$ 42,501,762

ADELANTO ELEMENTARY SCHOOL DISTRICT
Notes to Financial Statements
 June 30, 2018

NOTE 6 – CAPITAL ASSETS AND DEPRECIATION

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

	Balance, July 1, 2017	Additions	Retirements	Balance, June 30, 2018
Capital assets not being depreciated:				
Land	\$ 17,806,485	\$ -	\$ -	\$ 17,806,485
Total capital assets not being depreciated	17,806,485	-	-	17,806,485
Capital assets being depreciated:				
Improvement of sites	5,614,719	-	-	5,614,719
Buildings	206,851,893	-	-	206,851,893
Equipment	12,963,454	618,736	(31,486)	13,550,704
Total capital assets being depreciated	225,430,066	618,736	(31,486)	226,017,316
Accumulated depreciation for:				
Improvement of sites	(4,206,619)	(256,693)	-	(4,463,312)
Buildings	(51,282,654)	(5,334,396)	-	(56,617,050)
Equipment	(9,940,752)	(621,230)	27,633	(10,534,349)
Total accumulated depreciation	(65,430,025)	(6,212,319)	27,633	(71,614,711)
Total capital assets being depreciated, net	160,000,041	(5,593,583)	(3,853)	154,402,605
Governmental activity capital assets, net	<u>\$ 177,806,526</u>	<u>\$ (5,593,583)</u>	<u>\$ (3,853)</u>	<u>\$ 172,209,090</u>

NOTE 7 – GENERAL LONG-TERM DEBT

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

	Balance, July 1, 2017	Adjustments for Restatements	Restated Balance, July 1, 2017	Additions	Deductions	Balance, June 30, 2018	Amount Due Within One Year
General Obligation Bonds:							
Principal repayments	\$ 7,125,028	\$ -	\$ 7,125,028	\$ -	\$ 931,942	\$ 6,193,086	\$ 940,166
Accreted interest component	16,675,245	(2,081,016)	14,594,229	2,040,552	2,793,599	13,841,182	2,261,230
Total - G.O. Bonds	23,800,273	(2,081,016)	21,719,257	2,040,552	3,725,541	20,034,268	3,201,396
Certificates of Participation:							
Principal repayments	8,750,000	-	8,750,000	-	185,000	8,565,000	205,000
Unamortized issuance discount	(206,452)	-	(206,452)	-	(10,588)	(195,864)	(10,588)
Total - COPs	8,543,548	-	8,543,548	-	174,412	8,369,136	194,412
Compensated Absences	676,314	-	676,314	178,668	-	854,982	-
Capital Lease	1,214,736	-	1,214,736	-	288,569	926,167	298,410
Early Retirement Incentives	1,234,570	-	1,234,570	-	466,617	767,953	380,661
Other Postemployment Benefits	17,003,665	-	17,003,665	1,552,296	49,529	18,506,432	-
Totals	<u>\$ 52,473,106</u>	<u>\$ (2,081,016)</u>	<u>\$ 50,392,090</u>	<u>\$ 3,771,516</u>	<u>\$ 4,704,668</u>	<u>\$ 49,458,938</u>	<u>\$ 4,074,879</u>

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

Payments for general obligation bonds are made by the Bond Interest and Redemption Fund. Certificates of participation payments are made by the Debt Service Fund for Blended Component Units. Capital lease payments are made by the General Fund. Accumulated vacation, early retirement incentive payments, and employment benefits will be paid for by the fund for which the employee worked.

ADELANTO ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

A. General Obligation Bonds

In 1993, the District received authorization to issue \$10 million of general obligation bonds at an election held on June 8, 1993. The bonds are general obligations of the District, and the County is obligated to annually levy ad valorem taxes for the payment of the interest on, and the principal of the bonds. Bond proceeds were used to finance the construction of two new elementary schools.

In 1996, the District received authorization to issue \$12 million of general obligation bonds at an election held on June 4, 1996. The bonds are general obligations of the District, and the County is obligated to annually levy ad valorem taxes for the payment of the interest on, and the principal of the bonds. Bond proceeds were used to finance the construction of a new elementary school and a new middle school.

Below is a summary of bonds issued by the District:

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Balance, July 1, 2017	Additions	Deductions	Balance, June 30, 2018
1993A	10/26/1993	9/1/2018	2.6%-5.6%	\$ 3,999,350	\$ 546,314	\$ -	\$ 264,918	\$ 281,396
1994B	6/9/1994	9/1/2018	5.35%-6.7%	5,997,952	865,986	-	423,371	442,615
1996A	11/13/1996	9/1/2021	3.7%-5.95%	4,498,721	500,806	-	112,237	388,569
1997A	9/9/1997	9/1/2022	3.9%-5.67%	7,499,622	5,211,922	-	131,416	5,080,506
				<u>\$ 21,995,645</u>	<u>\$ 7,125,028</u>	<u>\$ -</u>	<u>\$ 931,942</u>	<u>\$ 6,193,086</u>
				<u>Accreted Interest</u>				
				1993	\$ 1,147,321	\$ 266,383	\$ 723,924	\$ 689,780
				1994	2,042,312	808,596	1,533,328	1,317,580
				1996	1,145,776	88,126	267,763	966,139
				1997	10,258,820	877,447	268,584	10,867,683
					<u>\$ 14,594,229</u>	<u>\$ 2,040,552</u>	<u>\$ 2,793,599</u>	<u>\$ 13,841,182</u>

The amounts required to amortize general obligation bonds payable at June 30, 2018, were:

Fiscal Year	Principal	Interest	Total
2018-19	\$ 940,166	\$ 3,089,834	\$ 4,030,000
2019-20	1,265,527	3,089,473	4,355,000
2020-21	1,296,403	3,418,598	4,715,001
2021-22	1,322,593	3,772,407	5,095,000
2022-23	1,368,397	4,161,601	5,529,998
Total	<u>\$ 6,193,086</u>	<u>\$ 17,531,913</u>	<u>\$ 23,724,999</u>

ADELANTO ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

B. Certificates of Participation

On January 17, 2007, the District issued \$9,495,000 certificates of participation pursuant to a lease agreement with the Public Property Financing Corporation of California. The proceeds of the certificates were used primarily to finance the acquisition and construction of certain improvements and the acquisition of certain items of equipment for a new district administrative facility to be owned and operated by the District. The certificates were issued as \$1,870,000 Serial Certificates with stated interest rates of between 3.875% and 4.25% and maturing between September 1, 2011 and 2021, and Term Certificates of \$1,705,000, and \$5,920,000, having yields of 4.48% and 4.53%, and maturing September 1, 2026, and 2036, respectively. At June 30, 2018, the principal balance outstanding was \$8,565,000.

The annual amounts required to amortize the outstanding certificates are shown below.

Fiscal Year	Principal	Interest	Total
2018-19	\$ 205,000	\$ 366,784	\$ 571,784
2019-20	225,000	358,184	583,184
2020-21	245,000	348,631	593,631
2021-22	265,000	337,946	602,946
2022-23	290,000	326,080	616,080
2023-28	1,840,000	1,413,091	3,253,091
2028-33	2,645,000	928,703	3,573,703
2033-37	2,850,000	259,219	3,109,219
Total	<u>\$ 8,565,000</u>	<u>\$ 4,338,638</u>	<u>\$ 12,903,638</u>

C. Early Retirement

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

Future Years	Amount
2018-19	\$ 380,661
2019-20	276,031
2020-21	111,261
Total	<u>\$ 767,953</u>

ADELANTO ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

D. Capital Leases

On August 4, 2014, the District entered into a six year capital lease agreement with Wells Fargo for busses valued at \$1,551,758. Total future payments at June 30, 2018, are as follows:

Fiscal Year	Principal	Interest	Total
2018-19	\$ 298,410	\$ 31,676	\$ 330,086
2019-20	308,602	21,484	330,086
2020-21	319,155	10,931	330,086
Total	<u>\$ 926,167</u>	<u>\$ 64,091</u>	<u>\$ 990,258</u>

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

E. Non-Obligatory Debt

Non-obligatory debt relates to debt issuances by the Community Facility Districts, as authorized by the Mello-Roos Community Facilities Act of 1982 as amended, and the Mark-Roos Local Bond Pooling Act of 1985, and are payable from special taxes levied on property within the Community Facilities Districts according to a methodology approved by the voters within the District. Neither the faith and credit nor taxing power of the District is pledged to the payment of the bonds. Reserves have been established from the bond proceeds to meet delinquencies should they occur. If delinquencies occur beyond the amounts held in those reserves, the District has no duty to pay the delinquency out of any available funds of the District. The District acts solely as an agent for those paying taxes levied and the bondholders, and may initiate foreclosure proceedings. Special assessment debt of \$17,110,000 as of June 30, 2018, does not represent debt of the District and, as such, does not appear in the financial statements.

NOTE 8 – JOINT VENTURES

The Adelanto Elementary School District participates in joint ventures under joint powers agreements with the Southern California Schools Employee Benefits Association (SCSEBA), and Southern California Schools Risk Management (SCSRM). The relationships between the District and the JPAs are such that the JPAs are not a component unit of the District for financial reporting purposes.

The JPAs provide property and liability insurance coverage, health and welfare benefits coverage, and workers compensation insurance coverage. The JPAs are governed by a board consisting of a representative from each member district. The governing board controls the operations of its JPAs independent of any influence by the member districts beyond their representation on the governing board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionately to its participation in the JPAs.

ADELANTO ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 8 – JOINT VENTURES (continued)

Condensed audited financial information is as follows:

	SCSRM	SCSEBA
	June 30, 2017	June 30, 2017
Total Assets	\$ 69,092,311	\$ 49,977,341
Total Liabilities	23,878,775	14,188,582
Total Net Position	<u>\$ 45,213,536</u>	<u>\$ 35,788,759</u>
Revenues	\$ 47,852,096	\$ 240,988,197
Expenses	41,033,799	232,895,668
Operating Income (Loss)	6,818,297	8,092,529
Non-Operating Revenue (Expense)	(688,269)	354,992
Change in Net Position	<u>\$ 6,130,028</u>	<u>\$ 8,447,521</u>

NOTE 9 – RISK MANAGEMENT

Property and Liability

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

Workers' Compensation

For fiscal year 2017-18, the District participated in the SCSRM JPA for workers compensation, with excess coverage provided by the Schools Excess Liability Fund (SELF) public entity risk pool.

Employee Medical Benefits

The District has contracted with High Desert and Inland Employee/Employer Trust to provide employee medical, vision, and life insurance benefits. The District provides dental benefits for management employees through SCSEBA.

NOTE 10 – COMMITMENTS AND CONTINGENCIES

A. State and Federal Allowances, Awards, and Grants

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

B. Construction Commitments

At June 30, 2018, the District had no commitments with respect to unfinished capital projects.

C. Litigation

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

ADELANTO ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 11 – PENSION PLANS

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

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

Pension Plan	Net Pension Liability	Deferred Outflows of Resources	Deferred Inflows of Resources	Pension Expense
CalSTRS	\$ 60,826,865	\$ 24,344,121	\$ 2,680,907	\$ 7,888,315
CalPERS	24,265,105	8,020,091	285,692	4,699,737
Total	<u>\$ 85,091,970</u>	<u>\$ 32,364,212</u>	<u>\$ 2,966,599</u>	<u>\$ 12,588,052</u>

The details of each plan are as follows:

A. California State Teachers' Retirement System (CalSTRS)

Plan Description

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

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

Benefits Provided

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

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

ADELANTO ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 11 – PENSION PLANS (continued)

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

Benefits Provided (continued)

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

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

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

Contributions

Required member District and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1% of applicable member earnings phased over a seven year period. The contribution rates for each plan for the year ended June 30, 2018, are presented above and the District's total contributions were \$5,546,070.

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

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

Total net pension liability, including State share:	
District's proportionate share of net pension liability	\$ 60,826,865
State's proportionate share of the net pension liability associated with the District	14,205,422
Total	<u>\$ 75,032,287</u>

ADELANTO ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 11 – PENSION PLANS (continued)

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

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

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

	Percentage Share of Risk Pool		Change Increase/ (Decrease)
	Fiscal Year Ending June 30, 2018	Fiscal Year Ending June 30, 2017	
Measurement Date	June 30, 2017	June 30, 2016	
Proportion of the Net Pension Liability	0.065773%	0.064000%	0.001773%

For the year ended June 30, 2018, the District recognized pension expense of \$7,888,315. In addition, the District recognized pension expense and revenue of \$641,252 for support provided by the State. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 5,546,070	\$ -
Net change in proportionate share of net pension liability	7,304,220	-
Difference between projected and actual earnings on pension plan investments	-	1,619,989
Changes of assumptions	11,268,887	-
Differences between expected and actual experience in the measurement of the total pension liability	224,944	1,060,918
Total	<u>\$ 24,344,121</u>	<u>\$ 2,680,907</u>

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

ADELANTO ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 11 – PENSION PLANS (continued)

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

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ 1,673,320
2020	4,039,175
2021	3,167,024
2022	1,580,580
2023	3,142,688
Thereafter	2,514,357
Total	<u>\$ 16,117,144</u>

Actuarial Methods and Assumptions

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

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

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

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

ADELANTO ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 11 – PENSION PLANS (continued)

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

Actuarial Methods and Assumptions (continued)

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

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

Discount Rate

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

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

Discount Rate	Net Pension Liability
1% decrease (6.10%)	\$ 89,313,148
Current discount rate (7.10%)	60,826,865
1% increase (8.10%)	37,708,315

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of \$2,926,323 (9.328% of annual payroll). Under accounting principles generally accepted in the United States of America, these amounts are reported as revenues and expenditures. On behalf payments have not been included in the budgeted amounts reported in the General Fund - Budgetary Comparison Schedule.

ADELANTO ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 11 – PENSION PLANS (continued)

B. California Public Employees Retirement System (CalPERS)

Plan Description

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

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

Benefits Provided

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

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

	<u>School Employer Pool (CalPERS)</u>	
	On or before December 31, 2012	On or after January 1, 2013
Hire Date		
Benefit Formula	2% at 55	2% at 62
Benefit Vesting Schedule	5 years of service	5 years of service
Benefit Payments	Monthly for life	Monthly for life
Retirement Age	55	62
Monthly Benefits as a Percentage of Eligible Compensation	1.1%-2.5%	1.0%-2.5%
Required Employee Contribution Rate	7.00%	6.00%
Required Employer Contribution Rate	15.531%	15.531%

Contributions

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

ADELANTO ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 11 – PENSION PLANS (continued)

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

Contributions (continued)

The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2018, are presented above and the total District contributions were \$2.2 million.

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

As of June 30, 2018, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$24,265,105. The net pension liability was measured as of June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportions of the net pension liability for the two most recent measurement periods were:

	Percentage Share of Risk Pool		Change Increase/ (Decrease)
	Fiscal Year Ending June 30, 2018	Fiscal Year Ending June 30, 2017	
Measurement Date	June 30, 2017	June 30, 2016	
Proportion of the Net Pension Liability	0.101644%	0.099000%	0.002644%

For the year ended June 30, 2018, the District recognized pension expense of \$4,699,737. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 2,225,517	\$ -
Net change in proportionate share of net pension liability	541,549	-
Difference between projected and actual earnings on pension plan investments	839,407	-
Changes of assumptions	3,544,300	285,692
Differences between expected and actual experience in the measurement of the total pension liability	869,318	-
Total	\$ 8,020,091	\$ 285,692

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year. The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period. The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, changes of assumptions, and differences between expected and actual experience in the measurement of the total pension liability will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is 4 years.

ADELANTO ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 11 – PENSION PLANS (continued)

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

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

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ 1,701,212
2020	2,491,079
2021	1,667,653
2022	(351,061)
2023	-
Thereafter	-
Total	<u>\$ 5,508,883</u>

Actuarial Methods and Assumptions

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

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

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

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

ADELANTO ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 11 – PENSION PLANS (continued)

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

Actuarial Methods and Assumptions (continued)

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

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

Discount Rate

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

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

<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% decrease (6.15%)	\$ 35,701,745
Current discount rate (7.15%)	24,265,105
1% increase (8.15%)	14,777,454

C. Social Security

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

D. Payables to the Pension Plans

At June 30, 2018, the District reported payables of \$564,428 and \$34,101 for the outstanding amount of legally required contributions to the CalSTRS and CalPERS pension plans, respectively, required for the fiscal year ended June 30, 2018.

ADELANTO ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS

A. General Information about the OPEB Plan

Plan description

The District’s defined benefit OPEB plan provides OPEB for eligible certificated, classified, and management employees of the District. The authority to establish and amend the benefit terms and financing requirements are governed by collective bargaining agreements with plan members. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement 75.

Benefits provided

The postretirement health plans and the District’s obligation vary by employee group as described below:

	Certificated	Classified	Management
Benefit types provided	Medical and vision	Medical only	Medical only
Duration of Benefits	To age 65	To age 65	To age 65
Required Service	10 years	10 years	10 years
Minimum Age	55	55	55
Dependent Coverage	Yes	Yes	Yes
District Contribution %	100%	100%	100%
District Cap	95% of the lowest supercomposite rate	100% of the lowest supercomposite rate	100% of the lowest supercomposite rate

Employees covered by benefit terms

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

Inactive employees or beneficiaries currently receiving benefit payments	39
Active employees	646
Total	685

Medicare Premium Payment (MPP) Program

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

ADELANTO ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (continued)

B. Total OPEB Liability

The District's total OPEB liability of \$18,066,019 for the District Plan was measured as of June 30, 2018, and was determined by an actuarial valuation as of that date. The District's proportionate share of the net MPP Program OPEB liability of \$440,413 was measured as of June 30, 2017, and was determined by an actuarial valuation as of June 30, 2016.

	Total OPEB Liability
Balance at July 1, 2017	<u>\$ 16,513,723</u>
Changes for the year:	
Service cost	1,603,861
Interest	643,942
Benefit payments	<u>(695,507)</u>
Net changes	<u>1,552,296</u>
Balance at June 30, 2018	<u>18,066,019</u>
District's Proportionate Share of the Net MPP OPEB Liability	<u>440,413</u>
District's Total Reported Net OPEB Liability	<u><u>\$ 18,506,432</u></u>

Actuarial assumptions and other inputs

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

	District Plan	MPP Program
Valuation Date	June 30, 2018	June 30, 2016
Experience Study	N/A	July 1, 2010, through June 30, 2015
Inflation	2.75 percent	N/A
Salary increases	2.75 percent, average, including inflation	N/A
Healthcare cost trend rates	4.0 percent, net of OPEB plan investment expense, including inflation	3.58 percent
Retirees' share of benefit-related costs	5.0% of the lowest available super composite rate	3.7 percent for Medicare Part A, and 4.1 percent for Medicare Part B

District Plan

The discount rate is 3.8% per year, net of expenses based on the Bond Buyer 20-Bond Index.

Mortality rates are based on the most recent rates used by CalPERS and CalSTRS for the pension valuations.

MPP Program

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

ADELANTO ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (continued)

B. Total OPEB Liability (continued)

MPP Program (continued)

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

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

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

	1% Decrease 2.8%	Discount Rate 3.8%	1% Increase 4.8%
District Plan	\$ 19,486,891	\$ 18,066,019	\$ 16,809,958
	1% Decrease 2.58%	Discount Rate 3.58%	1% Increase 4.58%
MPP Program	\$ 487,568	\$ 440,413	\$ 394,545

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

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

	1% Decrease 3.0%	Healthcare Cost Trend Rates 4.0%	1% Increase 5.0%
District Plan	\$ 16,994,486	\$ 18,066,019	\$ 19,155,850
	1% Decrease (2.7% Part A and 3.1% Part B)	Medicare Cost Trend Rates (3.7% Part A and 4.1% Part B)	1% Increase (4.7% Part A and 5.1% Part B)
MPP Program	\$ 397,980	\$ 440,413	\$ 482,421

ADELANTO ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (continued)

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

For the year ended June 30, 2018, the District recognized OPEB expense of \$2,247,803. At June 30, 2018, the District reported no deferred overflows or inflows of resources related to OPEB.

NOTE 13 – ADJUSTMENT FOR RESTATEMENT

Beginning net position was increased by \$2,081,016 for accreted interest reductions in prior periods, which were not recognized previously. The effect of this restatement is to increase net position at July 1, 2017.

Required Supplementary Information

(This page intentionally left blank)

ADELANTO ELEMENTARY SCHOOL DISTRICT
Budgetary Comparison Schedule – General Fund
For the Fiscal Year Ended June 30, 2018

	Budgeted Amounts		Actual* (Budgetary Basis)	Variance with Final Budget - Pos (Neg)
	Original	Final		
Revenues				
LCFF sources	\$ 78,686,219	\$ 78,428,305	\$ 78,354,465	\$ (73,840)
Federal sources	4,600,911	6,079,130	5,919,234	(159,896)
Other state sources	3,395,808	9,704,945	9,887,156	182,211
Other local sources	1,646,691	2,107,676	2,156,453	48,777
Total Revenues	88,329,629	96,320,056	96,317,308	(2,748)
Expenditures				
Current:				
Certificated salaries	39,561,183	39,689,319	39,609,763	79,556
Classified salaries	13,996,441	14,619,141	14,412,390	206,751
Employee benefits	23,166,127	25,551,724	25,182,504	369,220
Books and supplies	4,862,851	3,211,738	2,634,994	576,744
Services and other operating expenditures	10,108,668	11,474,668	10,289,993	1,184,675
Transfers of indirect costs	(501,272)	(232,751)	(295,089)	62,338
Intergovernmental	1,100,000	1,565,304	1,523,767	41,537
Capital outlay	515,500	565,740	355,054	210,686
Debt service	460,000	460,000	398,775	61,225
Total Expenditures	93,269,498	96,904,883	94,112,151	2,792,732
Excess (Deficiency) of Revenues Over (Under) Expenditures	(4,939,869)	(584,827)	2,205,157	2,789,984
Other Financing Sources and Uses				
Interfund transfers out	(1,540,000)	(1,540,000)	(1,540,000)	-
Total Other Financing Sources and Uses	(1,540,000)	(1,540,000)	(1,540,000)	-
Net Change in Fund Balance	(6,479,869)	(2,124,827)	665,157	2,789,984
Fund Balance, July 1, 2017	23,539,359	23,539,359	23,539,359	-
Fund Balance, June 30, 2018	\$ 17,059,490	\$ 21,414,532	\$ 24,204,516	\$ 2,789,984

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

ADELANTO ELEMENTARY SCHOOL DISTRICT
Budgetary Comparison Schedule – Cafeteria Fund
For the Fiscal Year Ended June 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual (Budgetary Basis)</u>	<u>Variance with Final Budget - Pos (Neg)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Federal sources	\$ 4,873,346	\$ 5,308,922	\$ 5,337,098	\$ 28,176
Other state sources	398,342	372,142	372,218	76
Other local sources	165,100	96,359	97,035	676
Total Revenues	5,436,788	5,777,423	5,806,351	28,928
Expenditures				
Current:				
Classified salaries	1,909,190	2,003,570	1,806,843	196,727
Employee benefits	926,310	923,855	677,782	246,073
Books and supplies	1,816,825	3,449,137	2,680,681	768,456
Services and other operating expenditures	176,564	286,429	239,671	46,758
Transfers of indirect costs	501,272	297,657	295,089	2,568
Capital outlay	106,627	209,743	153,344	56,399
Total Expenditures	5,436,788	7,170,391	5,853,410	1,316,981
Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(1,392,968)	(47,059)	1,345,909
Fund Balance, July 1, 2017	3,431,609	3,431,609	3,431,609	-
Fund Balance, June 30, 2018	\$ 3,431,609	\$ 2,038,641	\$ 3,384,550	\$ 1,345,909

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

	Last Ten Fiscal Years*			
	2017	2016	2015	2014
CalSTRS				
District's proportion of the net pension liability	0.0658%	0.0640%	0.0620%	0.0530%
District's proportionate share of the net pension liability	\$ 60,826,865	\$ 51,763,840	\$ 41,740,880	\$ 30,971,610
State's proportionate share of the net pension liability associated with the District	14,205,422	29,472,569	22,076,265	18,702,183
Totals	\$ 75,032,287	\$ 81,236,409	\$ 63,817,145	\$ 49,673,793
District's covered-employee payroll	\$ 34,593,625	\$ 31,428,472	\$ 30,042,489	\$ 26,275,442
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	175.83%	164.70%	138.94%	117.87%
Plan fiduciary net position as a percentage of the total pension liability	69%	70%	74%	77%
CalPERS				
District's proportion of the net pension liability	0.1016%	0.0990%	0.1012%	0.0976%
District's proportionate share of the net pension liability	\$ 24,265,105	\$ 19,552,561	\$ 14,916,980	\$ 11,079,976
District's covered-employee payroll	\$ 13,430,170	\$ 11,895,341	\$ 11,210,492	\$ 10,210,863
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	180.68%	164.37%	133.06%	108.51%
Plan fiduciary net position as a percentage of the total pension liability	72%	74%	79%	83%

Notes to Schedule:

Changes in Benefit Terms

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

Change of Assumptions and Methods

CalSTRS:

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

CalPERS:

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

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

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

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

	Last Ten Fiscal Years*			
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
CalSTRS				
Contractually required contribution	\$ 5,546,070	\$ 4,351,878	\$ 3,372,275	\$ 2,667,773
Contributions in relation to the contractually required contribution	<u>5,546,070</u>	<u>4,351,878</u>	<u>3,372,275</u>	<u>2,667,773</u>
Contribution deficiency (excess):	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	<u>\$ 38,434,302</u>	<u>\$ 34,593,625</u>	<u>\$ 31,428,472</u>	<u>\$ 30,042,489</u>
Contributions as a percentage of covered-employee payroll	<u>14.43%</u>	<u>12.58%</u>	<u>10.73%</u>	<u>8.88%</u>
CalPERS				
Contractually required contribution	\$ 2,225,517	\$ 1,865,182	\$ 1,409,241	\$ 1,319,587
Contributions in relation to the contractually required contribution	<u>2,225,517</u>	<u>1,865,182</u>	<u>1,409,241</u>	<u>1,319,587</u>
Contribution deficiency (excess):	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	<u>\$ 14,329,515</u>	<u>\$ 13,430,170</u>	<u>\$ 11,895,341</u>	<u>\$ 11,210,492</u>
Contributions as a percentage of covered-employee payroll	<u>15.531%</u>	<u>13.888%</u>	<u>11.847%</u>	<u>11.771%</u>

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

ADELANTO ELEMENTARY SCHOOL DISTRICT

*Schedule of Changes in the District's Total OPEB Liability and Related Ratios
For the Fiscal Year Ended June 30, 2018*

Last 10 Fiscal Years*

	2018
Total OPEB liability	
Service cost	\$ 1,603,861
Interest	643,942
Benefit payments	<u>(695,507)</u>
Net change in total OPEB liability	1,552,296
Total OPEB liability - beginning	<u>16,513,723</u>
Total OPEB liability - ending	<u><u>\$ 18,066,019</u></u>
Covered-employee payroll	<u>\$ 53,148,586</u>
Total OPEB liability as a percentage of covered-employee payroll	<u>33.99%</u>

Notes to Schedule:

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

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

	2017
Total OPEB liability	
Interest	\$ 12,928
Differences between expected and actual experience	(41)
Changes of assumptions	(31,240)
Benefit payments, including refunds of member contributions	(28,929)
Net change in total OPEB liability	(47,282)
Total OPEB liability - beginning	468,031
Total OPEB liability - ending	<u>\$ 420,749</u>
Plan fiduciary net position	
Contributions - employer	\$ 29,117
Net investment income	11
Premiums paid	(28,929)
Administrative expense	(168)
Net change in plan fiduciary net position	31
Plan fiduciary net position - beginning	10
Plan fiduciary net position - ending	<u>\$ 41</u>
Net OPEB liability	<u>\$ 420,708</u>
District's proportionate share of net OPEB liability	<u>\$ 440,413</u>
Plan fiduciary net position as a percentage of the total OPEB liability	<u>0.01%</u>
Covered-employee payroll	<u>N/A</u>
District's net OPEB liability as a percentage of covered-employee payroll	<u>N/A</u>

Notes to Schedule:

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

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

ADELANTO ELEMENTARY SCHOOL DISTRICT
Notes to the Required Supplementary Information
For the Fiscal Year Ended June 30, 2018

NOTE 1 – PURPOSE OF SCHEDULES

Budgetary Comparison Schedules

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

Schedule of Proportionate Share of the Net Pension Liability

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

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

Schedule of Pension Contributions

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

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

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

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

NOTE 2 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

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

(This page intentionally left blank)

Supplementary Information

(This page intentionally left blank)

ADELANTO ELEMENTARY SCHOOL DISTRICT
Local Educational Agency Organization Structure
June 30, 2018

The Adelanto Elementary School District is an elementary school district established in 1873 and is comprised of an area of approximately 330 square miles located in San Bernardino County, encompassing a portion of the City of Adelanto and surrounding areas. There were no changes in the boundaries of the District during the current year. During the fiscal year, the District operated seven elementary schools (K-6), three K-8 schools, and two middle schools (7-8).

GOVERNING BOARD

Member	Office	Term Expires
Holly Eckes	President	November, 2020
Debra S. Jones	Clerk	November, 2018
Evelyn Glasper	Member	November, 2018
Jayson Hughes	Member	November, 2018
Christine Turner	Member	November, 2020

DISTRICT ADMINISTRATORS

Dr. Amy Nguyen-Hernandez, Ed.D.,
Superintendent

Dr. Fal Asrani, Ed.D.,
Chief Academic Officer

Ajay Mohindra,
Chief Business Officer

Andrea Credille,
Chief Personnel Officer

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

	Second Period Report	Annual Report
	Certificate No. (B46F6A00)	Certificate No. (EEC14FCD)
Regular & Extended Year:		
Transitional Kindergarten through Third	3,498.80	3,492.59
Fourth through Sixth	2,699.03	2,687.68
Seventh through Eighth	1,707.63	1,693.45
Total Regular & Extended Year	<u>7,905.46</u>	<u>7,873.72</u>
Special Education-Nonpublic, Nonsectarian Schools:		
Transitional Kindergarten through Third	-	0.09
Fourth through Sixth	-	0.12
Seventh through Eighth	0.25	0.26
Total Special Education-Nonpublic, Nonsectarian Schools	<u>0.25</u>	<u>0.47</u>
Total ADA	<u><u>7,905.71</u></u>	<u><u>7,874.19</u></u>

ADELANTO ELEMENTARY SCHOOL DISTRICT

Schedule of Instructional Time

For the Fiscal Year Ended June 30, 2018

<u>Grade Level</u>	<u>Required Minutes</u>	<u>2017-18 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Status</u>
Kindergarten	36,000	55,960	180	Complied
Grade 1	50,400	52,610	180	Complied
Grade 2	50,400	52,610	180	Complied
Grade 3	50,400	52,610	180	Complied
Grade 4	54,000	56,050	180	Complied
Grade 5	54,000	56,050	180	Complied
Grade 6	54,000	56,050	180	Complied
Grade 7	54,000	58,491	180	Complied
Grade 8	54,000	58,491	180	Complied

ADELANTO ELEMENTARY SCHOOL DISTRICT
Schedule of Financial Trends and Analysis
For the Fiscal Year Ended June 30, 2018

General Fund	(Budget) 2019 ²	2018 ³	2017	2016
Revenues and other financing sources	\$ 95,115,708	\$ 96,317,308	\$ 91,739,518	\$ 86,447,588
Expenditures	95,605,326	94,112,151	85,238,429	76,343,980
Other uses and transfers out	50,000	1,540,000	116,911	13,995
Total outgo	95,655,326	95,652,151	85,355,340	76,357,975
Change in fund balance (deficit)	(539,618)	665,157	6,384,178	10,089,613
Ending fund balance	\$ 23,664,898	\$ 24,204,516	\$ 23,539,359	\$ 17,155,181
Available reserves ¹	\$ 12,183,399	\$ 15,532,588	\$ 16,154,209	\$ 6,319,800
Available reserves as a percentage of total outgo	12.7%	16.5%	19.0%	8.3%
Total long-term debt	\$ 130,476,029	\$ 134,550,908	\$ 121,708,491	\$ 98,458,436
Average daily attendance at P-2	7,891	7,906	7,906	7,940

The General Fund balance has increased by \$7,049,335 over the past two years. The fiscal year 2018-19 adopted budget projects a decrease of \$539,618. For a district of this size, the state recommends available reserves of at least 3% of total general fund expenditures, transfers out, and other uses (total outgo).

The District has not incurred an operating deficit in any of the past three years, but anticipates incurring an operating deficit during the 2018-19 fiscal year. Long-term debt has increased by \$36,092,472 over the past two years from the net pension liability and other postemployment benefits.

Average daily attendance has decreased by 34 over the past two years. ADA is expected to decrease by 15 in fiscal year 2018-19.

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

² Revised Budget September, 2018.

³ The actual amounts reported in this schedule are for the General Fund only, and do not agree with the amounts reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances because the amounts on that schedule include the financial activity of the Special Reserve Fund for Other Than Capital Outlay Projects and Self-Insurance Fund, in accordance with the fund type definitions promulgated by GASB Statement No. 54.

ADELANTO ELEMENTARY SCHOOL DISTRICT

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

	<u>Cafeteria Fund</u>
June 30, 2018, annual financial and budget report (SACS) fund balances	\$ 2,978,520
Adjustments and reclassifications:	
Increasing (decreasing) the fund balance:	
Accounts receivable overstated	(35,566)
Accounts payable overstated	<u>441,596</u>
June 30, 2018, audited financial statement fund balances	<u><u>\$ 3,384,550</u></u>

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

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Cluster Expenditures	Federal Expenditures
Federal Programs:				
U.S. Department of Agriculture:				
Passed through California Dept. of Education (CDE):				
Child Nutrition Cluster:				
School Breakfast Program - Especially Needy	10.553	13526	\$ 1,079,567	
School Breakfast Program - Basic	10.553	13390	19,571	
National School Lunch Program	10.555	13391	3,991,699	
Summer Food Service Program Operations	10.559	13004	37,239	
USDA Donated Foods	10.555	N/A	<u>351,686</u>	
Subtotal Child Nutrition Cluster				\$ 5,479,762
Fresh Fruit and Vegetable Program	10.582	14968		<u>153,164</u>
Total U.S. Department of Agriculture				<u>5,632,926</u>
U.S. Department of Education:				
Passed through California Dept. of Education (CDE):				
Every Student Succeeds Act (ESSA):				
Title I, Part A, Basic Grants	84.010	14329		3,415,514
Title II, Part A, Supporting Effective Instruction	84.367	14341		266,961
Title III, Limited English Proficiency	84.365	14346		200,813
Title IV, 21st Century Community Learning Centers (CCLC) Technical Assistance	84.287	14681		64,875
Individuals with Disabilities Education Act (IDEA):				
Passed through the San Bernardino County				
Superintendent of Schools Desert Mountain SELPA:				
Local Assistance Entitlement	84.027	13379	1,598,206	
IDEA Preschool Grants, Part B, Section 619 (Age 3-4-5)	84.173	13430	1,006	
Preschool Local Entitlement, Part B	84.027A	13682	<u>3,064</u>	
Total Special Education (IDEA) Cluster				<u>1,602,276</u>
Total U.S. Department of Education				<u>5,550,439</u>
U.S. Department of Health & Human Services:				
Passed through California Department of Education (CDE):				
Medicaid Cluster:				
Medi-Cal Billing Option	93.778	10013	65,241	
Medi-Cal Administrative Activities (MAA)	93.778	10060	<u>111,545</u>	
Total U.S. Department of Health & Human Services				<u>176,786</u>
Total Expenditures of Federal Awards				<u>\$ 11,360,151</u>

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

ADELANTO ELEMENTARY SCHOOL DISTRICT
Schedule of Charter Schools
For the Fiscal Year Ended June 30, 2018

<u>Name of Charter School</u>	<u>Included in District Audit</u>
Taylion High Desert Academy (No. 1520)	No

ADELANTO ELEMENTARY SCHOOL DISTRICT

Note to the Supplementary Information

June 30, 2018

NOTE 1 – PURPOSE OF SCHEDULES

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

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

Schedule of Financial Trends and Analysis

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

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

Schedule of Expenditures of Federal Awards

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

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

	<u>CFDA Number</u>	<u>Amount</u>
Total Federal Revenues from the Statement of Revenues, Expenditures, and Changes in Fund Balances		\$ 11,552,160
Differences between Federal Revenues and Expenditures:		
Medi-Cal Billing Option	93.778	<u>(192,009)</u>
Total Schedule of Expenditures of Federal Awards		<u>\$ 11,360,151</u>

Schedule of Charter Schools

This schedule lists all charter schools chartered by the District, and displays information for each charter school and whether or not the charter school is included in the District audit.

Other Independent Auditors' Reports

(This page intentionally left blank)



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

Board of Trustees
Adelanto Elementary School District
Adelanto, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Adelanto Elementary School District as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Adelanto Elementary School District's basic financial statements, and have issued our report thereon dated November 19, 2018.

Internal Control Over Financial Reporting

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

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

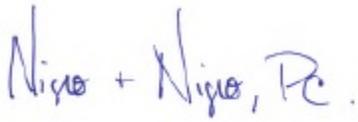
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

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

Purpose of this Report

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



Murrieta, California
November 19, 2018



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Board of Trustees
Adelanto Elementary School District
Adelanto, California

Report on State Compliance

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

Management's Responsibility

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

Auditors' Responsibility

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

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

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

Table with 2 columns: Description, Procedures Performed. Rows include: Local Education Agencies Other Than Charter Schools: Attendance (Yes), Teacher Certification and Misassignments (Yes), Kindergarten Continuance (Yes), Independent Study (No (see below)), Continuation Education (Not Applicable), Instructional Time (Yes), Instructional Materials (Yes), Ratio of Administrative Employees to Teachers (Yes).

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

We did not perform testing for independent study because the ADA was under the level that requires testing.

Unmodified Opinion on Compliance with State Programs

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

Other Matter

The results of our auditing procedures disclosed instances of noncompliance with the compliance requirements referred to previously, which are required to be reported in accordance with the *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, and which are described in the accompanying schedule of findings and questioned costs as Findings 2018-001 and 2018-002. Our opinion on each state program is not modified with respect to these matters.

District's Responses to Findings

Adelanto Elementary School District's responses to the compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Adelanto Elementary School District's responses were not subjected to the auditing procedures in the audit of compliance and, accordingly, we express no opinion on the responses.

Nigro + Nigro, PC.

Murrieta, California
November 19, 2018



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

Board of Trustees
Adelanto Elementary School District
Adelanto, California

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

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

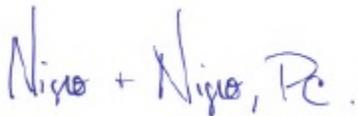
Report on Internal Control Over Compliance

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

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

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

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



Murrieta, California
November 19, 2018

Findings and Questioned Costs

(This page intentionally left blank)

ADELANTO ELEMENTARY SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2018

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

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

Federal Awards

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

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
10.553, 10.555	Child Nutrition Cluster
84.027, 84.173	Special Education Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 750,000</u>
Auditee qualified as low-risk auditee?	<u>No</u>

State Awards

Type of auditor's report issued on compliance for state programs:	<u>Unmodified</u>
---	-------------------

ADELANTO ELEMENTARY SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2018

SECTION II - FINANCIAL STATEMENT FINDINGS

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

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

There were no financial statement findings in 2017-18.

ADELANTO ELEMENTARY SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2018

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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

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

ADELANTO ELEMENTARY SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2018

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

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

Finding 2018-001: Instructional Materials (70000)

Criteria: California Education Code Section 60119 requires that school districts conduct a public hearing regarding the sufficiency of textbooks and instructional materials. The public hearing must be held on or before the 8th week of school.

Condition: The District's sufficiency of instructional materials public hearing was held on October 10, 2017. This was after the 8th week of school which began on August 9, 2017. The hearing needed to be held on or prior to the week of October 2.

Context: The exception is limited to the 2017-18 school year.

Questioned Cost: There is no financial penalty associated with noncompliance.

Cause: The District failed to hold the public hearing for instructional materials on or before the 8th week of school.

Effect: The public hearing was not held until October 10.

Recommendation: We recommend that the District ensure that the instructional material public hearing is completed on or before the 8th week of school for the 2018-19 school year.

View of Responsible Officials: The District will ensure that instructional material public hearing is completed on or before the 8th week of school in future years

Finding 2018-002: CALPADS Unduplicated Pupil Count (40000)

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

- Unduplicated count of pupils who (1) are English learners, (2) meet income or categorical eligibility requirements for free or reduced-price meals under the National School Lunch Program, or (3) are foster youth. "Unduplicated count" means that each pupil is counted only once even if the pupil meets more than one of these criteria (*EC* sections 2574(b)(2) and 42238.02(b)(1)).
- Divided by total enrollment in the LEA (*EC* sections 2574(b)(1) and 42238.02(b)(5)). All pupil counts are based on Fall 1 certified enrollment reported in the CALPADS as of Census Day.

ADELANTO ELEMENTARY SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2018

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

Finding 2018-002: CALPADS Unduplicated Pupil Count (40000) (continued)

Condition: During our testing of the English Learner (EL) and Free and Reduced Price Meal (FRPM) eligible students reported in the CALPADS 1.17 and 1.18 reports, we noted one student was classified as an EL student, but did not have a CELDT or other evidence as being an EL student in accordance with the District’s policy.

Context: We noted an error in one of the four schools we tested, for a total of one exception out of a sample size of 51.

Cause: This was due to human error. It was an isolated event, not an indication of a weakness in internal controls.

Questioned Cost: \$524

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

School Site	CALPADS Reported	Adjusted based on eligibility English Learner	Adjusted Total
Melva Davis Academy of Excellence	695	(1)	694
Aggregate remaining school sites	6,287	-	6,287
District-wide	6,982	(1)	6,981

The enrollment count of 8,374 was not impacted as a result of the procedures performed.

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

View of Responsible Officials: We are implementing additional review procedures, to help ensure that students from other districts have a proper EL classification.

ADELANTO ELEMENTARY SCHOOL DISTRICT

Summary Schedule of Prior Audit Findings

For the Fiscal Year Ended June 30, 2018

Original Finding No.	Finding	Code	Recommendation	Current Status
<i>Finding 2017-001: Cafeteria Fund Cash Reserves</i>	<p>The school food authority should limit its net cash resources to an amount that does not exceed three months average expenditures in accordance with 7 CFR Section 210.14(b).</p> <p>At June 30, 2017, fund balance in the Cafeteria Fund was \$3,431,235, which exceeds the average of three months expenditures by \$1,808,287.</p>	50000	We recommend the District create a spending plan and submit to the California Department of Education (CDE) for approval. Once approved, the District should work with CDE to reduce cash reserves.	Implemented.
<i>Finding 2017-002: Restricted Routine Maintenance Contribution</i>	<ul style="list-style-type: none"> • Pursuant to Education Code Section 17070.75, an LEA with a project funded by the State Allocation Board after November 1998 under the Leroy F. Greene School Facilities Act of 1998 must establish and maintain a restricted maintenance account within their general fund to be used for ongoing and major maintenance of school buildings. • Pursuant to Education Code Section 17070.75 (b)(2)(B), for the 2016-17 fiscal year, the minimum amount required to be deposited into the account shall be the lesser of the following amounts: <ul style="list-style-type: none"> ○ Three percent of the total general fund expenditures for 2016-17 fiscal year. ○ The amount that the school district deposited into the account in the 2014-15 fiscal year. <p>During our testing of restricted routine maintenance contribution, we noted the District contributed \$772,566 for 2016-17 fiscal year. The District should have contributed \$1,177,163 because the District contributed \$1,177,163 to restricted routine maintenance in 2014-15 fiscal year and 3 percent of 2016-17 general fund expenditures was \$2,529,905.</p>	60000	We recommend that the District closely monitor restricted routine maintenance requirement and deposit the required amount into the restricted routine maintenance account.	Implemented.

ADELANTO ELEMENTARY SCHOOL DISTRICT

Summary Schedule of Prior Audit Findings

For the Fiscal Year Ended June 30, 2018

Original Finding No.	Finding	Code	Recommendation	Current Status
<i>Finding 2017-003: Unduplicated Pupil Count</i>	<p>Supplemental and concentration grant amounts are calculated based on the percentage of "unduplicated pupils" enrolled in the LEA on Census Day (first Wednesday in October). The percentage equals:</p> <ul style="list-style-type: none">• Unduplicated count of pupils who (1) are English learners, (2) meet income or categorical eligibility requirements for free or reduced-price meals under the National School Lunch Program, or (3) are foster youth. "Unduplicated count" means that each pupil is counted only once even if the pupil meets more than one of these criteria (<i>EC</i> sections 2574(b)(2) and 42238.02(b)(1)).• Divided by total enrollment in the LEA (<i>EC</i> sections 2574(b)(1) and 42238.02(b)(5)). All pupil counts are based on Fall 1 certified enrollment reported in the CALPADS as of Census Day. <p>During our testing of the English Learner eligible students reported in the CALPADS 1.17 and 1.18 reports, we noted one student who was classified as an EL student in CALPADS, but was reclassified in 2015 and did not get updated in CALPADS.</p>	40000	We recommend that the District implement a review procedure of the CALPADS information prior to the reports submission to the California Department of Education.	Implemented in 2017. See Finding 2018-002 for 2018.

(This page intentionally left blank)



To the Board of Trustees
Adelanto Elementary School District
Adelanto, California

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

However, during our audit we noted matters that are an opportunity for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated November 19, 2018 on the financial statements of Adelanto Elementary School District.

FOOD SERVICE OPERATIONS

Observation: We noted that a reconciliation between inventory and daily sales for a-la-carte items is not being performed.

Recommendation: We recommend that inventory be reconciled to daily sales for all a-la-carte items and to the number of meals served. Reconciling inventory to daily sales improves control over food items and may identify any discrepancies in cash counts.

Observation: We noted that there is no receipt generated by site employees who collect cash for students' pre-pay accounts. Without issuing a receipt or using a cash collection log, there is no audit trail to prove that all cash collected is being deposited in the District account.

Recommendation: We recommend that a pre-numbered receipt book be used by site employees to record pre-payments and any cash collection to help keep adequate records from the point of collection to deposit. We recommend the District reconcile receipts with actual cash collected to ensure it is deposited in full with the District.

DISTRICT OFFICE

Observation: We discovered that the District does not keep a check log to record checks that are being received at the point of collection. Without a proper receipt or a check log, there is no audit trail to prove that all checks being collected are deposited in the District account.

Recommendation: We recommend that the District assign a person to log all checks that are received before distributing them to the appropriate department. We then recommend that this log is used to compare with deposits made as part of the reconciliation process.

DISTRICT OFFICE (continued)

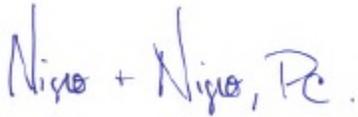
Observation: During our testing of cash receipts, we noted that there was cash that was received and not deposited until three weeks later. In addition, cafeteria cash collections were left at the sites over the weekends and not deposited until the following Monday.

Recommendation: We recommend that the District train all employees regarding deposits to ensure that cash is not left on hand over the weekend or holidays. For cafeteria, we recommend that there be a final courier pick up and deposit on Fridays for all sites where cash is collected.

Observation: In our test of cash disbursements, we noted that 3 of approximately 60 disbursements selected in our sample lacked supporting receipts. We determined upon further inquiry that the disbursements were used for tips as part of travel and conference costs. These expenditures are not consistent with District Board Policy 3350 which states that: "The District shall not reimburse personal travel expenses including, but not limited to, tips or gratuities... while on district business."

Recommendation: We recommend that the District remind all district employees, managers, and all other district personnel with regard to the District policy over travel expenses.

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



Murrieta, California
November 19, 2018