

**FULLERTON
SCHOOL DISTRICT
AUDIT REPORT
For the Fiscal Year Ended
June 30, 2017**



FULLERTON SCHOOL DISTRICT
For the Fiscal Year Ended June 30, 2017
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Financial Section

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Fullerton School District
Fullerton, California

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

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 *2016-17 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 Fullerton School District, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

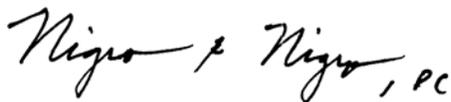
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 17, budgetary comparison information on pages 57 and 58, schedule of funding progress on page 59, schedule of proportionate share of the net pension liability on page 60, and schedule of pension contributions on page 61 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 65 to 68 and the schedule of expenditures of federal awards on page 69 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole. The information on page 64 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2017, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Murrieta, California
November 29, 2017

FULLERTON SCHOOL DISTRICT

Management's Discussion and Analysis (Unaudited) For the Fiscal Year Ended June 30, 2017

INTRODUCTION

The following discussion and analysis provides an overview of the financial position and activities of the District for the year ended June 30, 2017. This discussion has been prepared by management and should be read in conjunction with the financial statements and notes thereto which follow this section.

The Fullerton School District is a large suburban school district offering instruction to students from kindergarten through eighth grade, including programs for preschool and special education. During the 2016-17 school year, the District operated fifteen elementary schools, two K-8 schools, and three junior high schools, on the traditional August through May schedule, for the instruction of approximately 13,363 students.

MISSION STATEMENT

The mission of the Fullerton School District is to work collaboratively with the community to provide an innovative, high-quality educational program for all students in a safe learning environment. Our motto, "Great Schools - Successful Kids" exemplifies the belief that all students will achieve academic excellence, acquire interpersonal skills, and develop technological expertise to contribute as productive citizens in a democratic society.

Focusing on Excellence

Student Learning

- Develop and implement rigorous and innovative instructional programs within a safe and positive learning environment to help shape character, develop intellect, promote 21st Century learning skills, encourage collaboration, foster creativity, and provide for the joys of artistic expression.

Curriculum and Assessment

- Provide a standards-based academic program that focuses on utilizing research-based instructional strategies with effective and timely feedback that allows staff and parents to work together to make instructional decisions that promote success for all students.

Budget and Resources

- Maximize all existing funds and resources to enhance learning opportunities for all students while maintaining fiscal solvency and seeking new sources for revenue enhancement.

Staffing

- Actively recruit, retain, and value highly qualified, well-trained staff members.

Parents and Community

- Promote service, partnerships and increased involvement among the District, schools, parents and the community of Fullerton to actively support our schools.

Staff Development

- Encourage and support growth by implementing research-based professional development to guide work and align training opportunities to District goals, site goals and student needs.

Technology

- Empower all students and staff to effectively integrate state-of-the-art technology in all facets of the instructional and operational programs of the District.

FULLERTON SCHOOL DISTRICT

Management's Discussion and Analysis (Unaudited) For the Fiscal Year Ended June 30, 2017

MISSION STATEMENT (continued)

Leadership

- Sustain a professional cutting edge leadership team that works together to promote collaboration and foster a positive learning and working environment for all students and staff.

Facilities

- Maintain and improve facilities to provide a safe, attractive, positive learning, and working environment for all students and staff.

FINANCIAL HIGHLIGHTS

Districtwide Financial Statements

- As of June 30, 2017, the District's overall financial condition decreased from June 30, 2016, as Net Position decreased \$1.1 million. The sum of general revenues, operating grants and contributions, and charges for services was less than total expenses, creating the decrease.
- Overall revenues increased \$2.2 million, to \$153.8 million. The largest category of revenue to the District is the Local Control Funding Formula (LCFF), which makes up \$107.3 million (70%) of total revenues.
- Overall expenditures increased \$8.6 million, to \$154.9 million. The majority of expenditures (\$116.2 million) were for instruction and instruction-related services.
- Since revenues increased less than expenditures, the change in net position showed a decrease of \$1.1 million. This amount represents a decrease in the District's reserves.
- Total District-wide expenses were \$154.9 million. Because a portion of these costs was paid for with charges, fees, and federal and state categorical programs, the net cost that required taxpayer funding was \$123.2 million.

General Fund Financial Statements

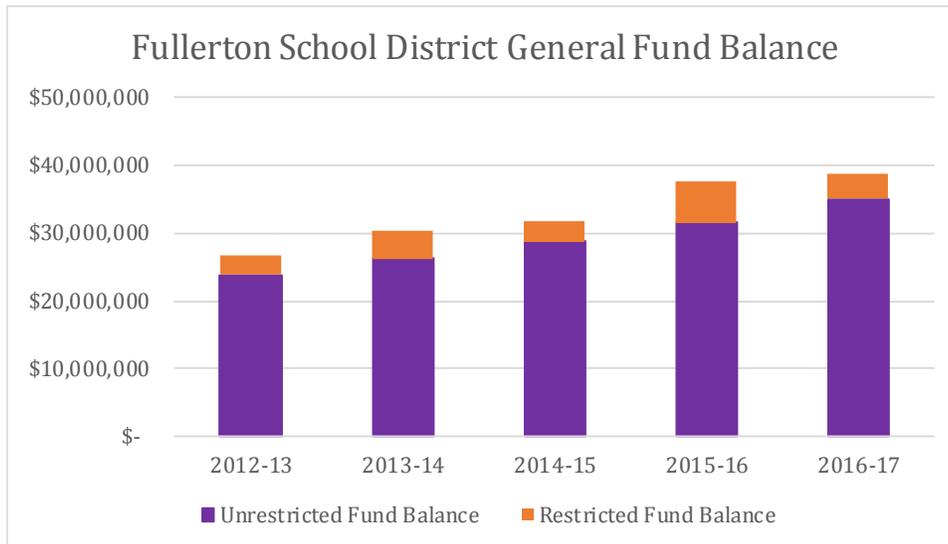
- The District's General Fund again recorded a net increase to the ending Fund Balance for the year. Actual results were better than the original and revised operating budgets for the year. This positive variance came about primarily because of underspending across all programs, as well as underspending of restricted categorical funds (which will be carried over into the next fiscal year). The District also did not spend a portion of unrestricted one-time Mandated Cost reimbursement funding, which was carried over into the next fiscal year.
- Revenues of \$138.5 million (\$113.7 million Unrestricted, \$24.8 million Restricted) were received.
- Expenditures of \$137.6 million (\$96.4 million Unrestricted, \$41.2 million Restricted) were made.
- The net result of operations was an increase to the ending fund balance of \$0.93 million. (\$3.5 million increase in Unrestricted, \$2.57 million decrease in Restricted)

FULLERTON SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2017

FINANCIAL HIGHLIGHTS (continued)

A five-year history of the District's General Fund is as follows:

	Ending Fund Balance			Net Change In Fund Balance
	Unrestricted	Restricted	Total	
2012-13	\$ 23,786,060	\$ 2,922,037	\$ 26,708,097	\$ 4,204,168
2013-14	26,239,641	4,100,734	30,340,375	3,632,278
2014-15	28,753,801	2,973,908	31,727,709	1,387,334
2015-16	31,512,672	6,200,580	37,713,252	5,985,543
2016-17	35,063,235	3,576,145	38,639,380	926,129



At June 30, 2017, the District's General Fund Balance was comprised of:

Reserved Amounts	\$ 334,318
Legally Restricted Balances	3,576,145
Assigned	9,813,041
Designated for Economic Uncertainties	24,915,876
Total	\$ 38,639,380

The amount Designated for Economic Uncertainties was \$24,915,876, or 18.11% of total General Fund expenditures. The State mandated requirement is a 3% reserve.

The actual amounts reported above 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 Deferred Maintenance Fund, Special Reserve Fund for Other Than Capital Outlay Projects, and Special Reserve Fund for Postemployment Benefits, in accordance with the fund type definitions promulgated by GASB Statement No. 54.

FULLERTON SCHOOL DISTRICT

Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2017

FINANCIAL HIGHLIGHTS (continued)

LCFF and Average Daily Attendance (ADA)

The majority of the District's unrestricted revenues are received from the State through the LCFF. The State switched to the LCFF funding formula in the 2013-14 fiscal year.

The State's 2013-14 budget presented an extraordinary change in California school district funding. The Revenue limits and most categorical programs which have existed since the 1970's *Serrano vs. Priest* decision were eliminated. Instead, the State implemented the Local Control Funding Formula (LCFF). Under LCFF, instead of the State allocating funds and requiring the Districts to spend money on programs and service the State determines are a priority, the new funding formula gives local boards control over how to use funds and resources in a way that improves outcomes and opportunities for all students. The new funding model specifically addresses students with greater needs – such as English learners, low-income and foster youth – with input from the community and with specific student outcome in mind.

School district leaders have conjectured that LCFF presents an historic opportunity to focus on improving student outcomes, closing achievement gaps, and increasing the level of communication between schools and their communities. Further, the State's shift away from complex categorical funding will require Districts to be strategic and collaborative when investing resources and delivering instructional programs to best serve students.

While the main drivers of the Revenue Limit were Average Daily Attendance (ADA) and State-funded Cost of Living Adjustment (COLA), LCFF adds two additional factors:

- Unduplicated Percentages of Underserved Students - defined as those students enrolled in the Free and Reduced Lunch program, English Language Learners, and Foster Youth. Due to the widely differing unduplicated count percentages in different school districts, the amounts received in LCFF funding will vary widely by District will become even more disparate as time goes on.
- Percentage of Gap Funding during Transition: Full implementation of the LCFF is beyond the State's current financial means. Therefore, the State intends to fully implement LCFF over an eight-year period. Each year, as part of the budget process, the Legislature and Governor (with consideration of the COLA and Proposition 98 requirements) will determine the amount of the gap funding to implement in the current budget year.

The District calculates its LCFF apportionment based upon a formula incorporating these inputs. The District receives its share of local property taxes, and the State provides Apportionment Revenue to make up the total LCFF earned.

FULLERTON SCHOOL DISTRICT

*Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2017*

FINANCIAL HIGHLIGHTS (continued)

Average Daily Attendance (ADA)

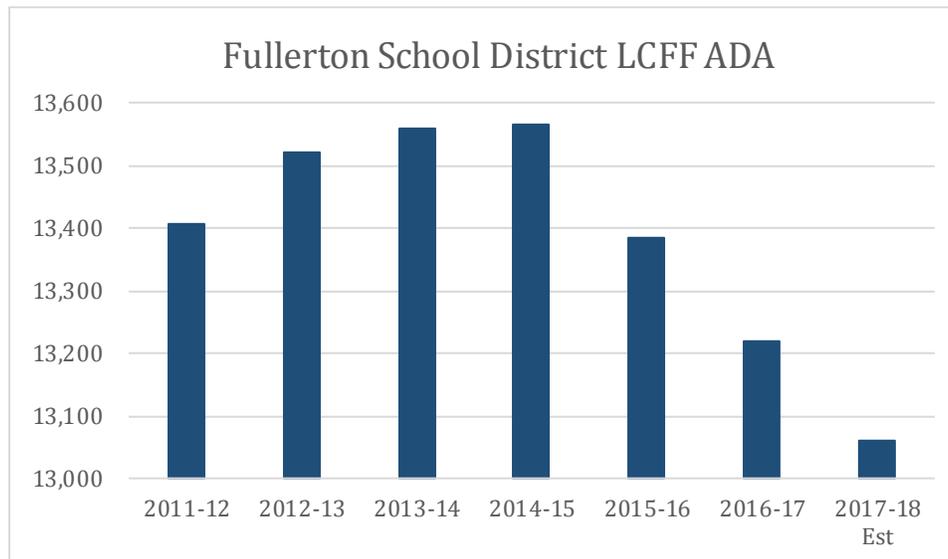
Virtually all of the District's funding is based upon the number of students in attendance at District schools, or Average Daily Attendance (ADA). ADA is calculated based upon the actual number of days a student attends school, divided by the total possible instructional days (180 days for a full school year). Thus, a student who attends class every day of the school year, with no absences, earns one ADA.

The District's main source of funding, the Local Control Funding Formula (LCFF) is calculated based upon the District's Second Period ("P-2") ADA. If a district is in a declining enrollment situation (like Fullerton School District), LCFF is calculated based upon the higher, prior-year ADA.

The District's enrollment most recently peaked in 2014-15. Therefore, even though enrollment decreased by approximately 181 students in fiscal year 2016-17, the District still earned LCFF based upon the higher 2014-15 ADA. The lower ADA for 2014-15 was reflected in the 2015-16 LCFF. This one-year lag is projected to continue for the foreseeable future as the District remains in declining enrollment.

P-2 apportionment-earning ADA used in the calculation of the Revenue Limit/LCFF for the past five years, and the estimated LCFF ADA for the current year, is as follows:

2011-12	13,405
2012-13	13,520
2013-14	13,558
2014-15	13,565
2015-16	13,384
2016-17	13,218
2017-18 Est	13,062



FULLERTON SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2017

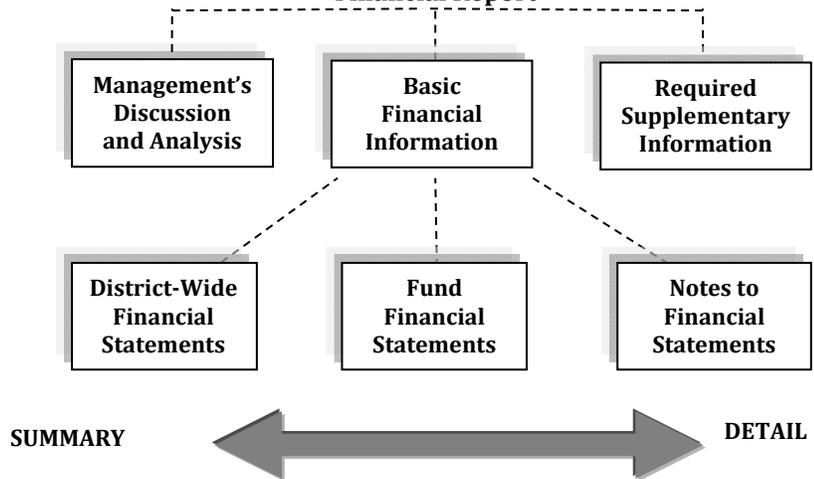
OVERVIEW OF THE FINANCIAL STATEMENTS

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.

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.

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



FULLERTON SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2017

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	Proprietary Funds	Fiduciary Funds
<i>Scope</i>	Entire District, except fiduciary activities	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities of the District that operate like a business, such as self-insurance funds	Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activities monies
<i>Required financial statements</i>	<ul style="list-style-type: none"> • Statement of Net Position • Statement of Activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures & Changes in Fund Balances 	<ul style="list-style-type: none"> • Statement of Net Position • Statement of Revenues, Expenses, & Changes in Net Position • Statement of Cash Flows 	<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	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	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	All revenues and expenses during the year, regardless of when cash is received or paid

FULLERTON SCHOOL DISTRICT

Management's Discussion and Analysis (Unaudited) For the Fiscal Year Ended June 30, 2017

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

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

District-Wide Statements

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

The two district-wide statements report the District's net position and how 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 three 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.

FULLERTON SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2017

Fund Financial Statements (continued)

- *Proprietary funds* – When the District charges other District funds for the services it provides, these services are reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and Statement of Activities. In fact, the District's internal service fund is included within the governmental activities reported in the district-wide statements but provides more detail and additional information, such as cash flows. The District uses the internal service fund to report activities that relate to the District's self-insured program for workers' compensation claims and property and liability losses.
- *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.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position. The District's combined net position was lower on June 30, 2017, than it was the year before – decreasing 4.6% to \$(25.9) million (See Table A-1).

Table A-1: Statement of Net Position

	Governmental Activities		Variance Increase (Decrease)
	2017	2016	
Assets			
Current assets	\$ 59,562,986	\$ 67,240,830	\$ (7,677,844)
Capital assets	88,345,939	84,078,203	4,267,736
Total assets	<u>147,908,925</u>	<u>151,319,033</u>	<u>(3,410,108)</u>
Deferred outflows of resources	<u>29,670,046</u>	<u>15,623,375</u>	<u>14,046,671</u>
Liabilities			
Current liabilities	8,389,279	11,855,490	(3,466,211)
Long-term liabilities	54,436,893	55,023,987	(587,094)
Net pension liability	130,099,053	103,001,802	27,097,251
Total liabilities	<u>192,925,225</u>	<u>169,881,279</u>	<u>23,043,946</u>
Deferred inflows of resources	<u>10,562,287</u>	<u>21,823,205</u>	<u>(11,260,918)</u>
Net position			
Net investment in capital assets	51,823,290	44,559,334	7,263,956
Restricted	14,652,287	22,232,001	(7,579,714)
Unrestricted	(92,384,118)	(91,553,411)	(830,707)
Total net position	<u>\$ (25,908,541)</u>	<u>\$ (24,762,076)</u>	<u>\$ (1,146,465)</u>

FULLERTON SCHOOL DISTRICT

Management's Discussion and Analysis (Unaudited)

For the Fiscal Year Ended June 30, 2017

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (continued)

Changes in net position, governmental activities. The District's total revenues increased 1.4% to \$153.8 million (See Table A-2). The increase is due primarily to capital grants and contributions.

The total cost of all programs and services increased 5.9% to \$154.9 million. The District's expenses are predominantly related to educating and caring for students, 83.6%. The purely administrative activities of the District accounted for just 4.6% of total costs. A significant contributor to the increase in costs was from instruction and pupil services.

Table A-2: Statement of Activities

	Governmental Activities		Variance
	2017	2016	Increase (Decrease)
Revenues			
Program Revenues:			
Charges for services	\$ 25,601	\$ 454,989	\$ (429,388)
Operating grants and contributions	31,673,692	29,951,299	1,722,393
General Revenues:			
Property taxes	51,066,259	47,253,266	3,812,993
Federal and state aid not restricted	65,708,074	69,489,446	(3,781,372)
Other general revenues	5,291,905	4,457,036	834,869
Total Revenues	153,765,531	151,606,036	2,159,495
Expenses			
Instruction-related	116,153,244	107,151,107	9,002,137
Pupil services	13,391,188	12,167,533	1,223,655
Administration	7,090,722	7,054,752	35,970
Plant services	10,532,757	11,281,250	(748,493)
All other activities	7,744,085	8,657,618	(913,533)
Total Expenses	154,911,996	146,312,260	8,599,736
Increase (decrease) in net position	\$ (1,146,465)	\$ 5,293,776	\$ (6,440,241)

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The Governmental Funds financial statements report the financial activities of the District net of the effect of long-term items such as capital assets, long-term debt, and other multi-year commitments. Rather, the Governmental Funds statements generally present only financial transactions related to current assets and liabilities. These statements focus on cash received and spent in one year, and what assets are available at year end that can be spent on expenses and liabilities that will be paid within one fiscal year.

At June 30, 2017, the District reported a combined fund balance of \$50.1 million for all of its governmental funds, which represents a decrease of \$4.5 million from last year's ending fund balance of \$54.6 million.

FULLERTON SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2017

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (continued)

Table A-3: The District's Fund Balances

Fund	Fund Balances			
	July 1, 2016	Revenues	Expenditures	June 30, 2017
General Fund	\$ 37,713,251	\$ 138,530,887	\$ 137,604,758	\$ 38,639,380
Child Development Fund	1,061,595	4,186,431	4,540,617	707,409
Cafeteria Special Revenue Fund	2,439,364	5,626,342	5,851,156	2,214,550
Deferred Maintenance Fund	751,497	5,751	435,136	322,112
Building Fund	141,138	869	93,652	48,355
Capital Facilities Fund	2,055,590	654,400	419,694	2,290,296
Special Reserve Fund (Capital Outlay)	7,400,075	548,280	5,284,709	2,663,646
Bond Interest and Redemption Fund	3,074,797	3,717,494	3,592,050	3,200,241
Total Governmental Fund Balances	<u>\$ 54,637,307</u>	<u>\$ 153,270,454</u>	<u>\$ 157,821,772</u>	<u>\$ 50,085,989</u>
Proprietary Fund:				
Self-Insurance Fund	<u>\$ 1,261,957</u>	<u>\$ 1,932,388</u>	<u>\$ 1,634,429</u>	<u>\$ 1,559,916</u>

General Fund Budgetary Highlights

The District's primary operating fund, and the fund where the majority of its financial transactions take place, is the General Fund.

The overall financial health of the District is generally determined by the state of its General Fund. This fund reflects the effects on the District's finances caused by increased funding or cuts imposed by the State on public education funding. It is also the fund where the District Board and administration have the most flexibility to adjust expenditures to match changes in State and Federal funding.

The 2016-17 "Final" budget was officially approved by the Board of Trustees on June 20, 2016. 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 \$7.9 million primarily to reflect increases in federal, state, and local revenue estimates. Other Federal and State revenue adjustments reflect differences between estimated and actual carryovers for June 30, 2016 (more revenue was carried over than expected so budgets increased for 2016-17). Increases in other local revenues reflect donations received during the year. The District does not budget revenues and expenditures related to donations until the actual donation is received.
- Expenditures – budget increased \$12.4 million, primarily to reflect employee compensation increases negotiated in the winter of 2016, as well as the adjustment to the budget to reflect the expenditure of carryover amounts.

While the District's final budget for the General Fund anticipated that expenditures would exceed revenues by about \$7 million, the actual results for the year show that revenues exceeded expenditures by roughly \$0.93 million. Actual revenues were \$535,396 less than anticipated, but expenditures were \$8.5 million less than budgeted. That amount consists primarily of restricted categorical program dollars that were not spent as of June 30, 2017, that will be carried over into the 2017-18 budget.

FULLERTON SCHOOL DISTRICT

Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2017

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2016-17, the District had invested \$9.1 million in new capital assets, related to site improvements. (More detailed information about capital assets can be found in Note 6 to the financial statements). Total depreciation expense for the year exceeded \$4.8 million.

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

	Governmental Activities		Variance Increase (Decrease)
	2017	2016	
Land	\$ 9,198,655	\$ 9,198,655	\$ -
Improvement of sites	3,558,019	2,654,110	903,909
Buildings	69,290,811	68,378,636	912,175
Equipment	2,485,850	2,913,127	(427,277)
Construction in progress	3,812,604	933,675	2,878,929
Total	<u>\$ 88,345,939</u>	<u>\$ 84,078,203</u>	<u>\$ 4,267,736</u>

Long-Term Debt

At year-end the District had \$54.4 million in general obligation bonds, certificates of participation, RDA loans, capital leases and employment benefits – a decrease of 1.1% from last year – as shown in Table A-5. (More detailed information about the District's long-term liabilities is presented in Note 7 to the financial statements).

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

	Governmental Activities		Variance Increase (Decrease)
	2017	2016	
General obligation bonds	\$ 36,643,617	\$ 38,789,987	\$ (2,146,370)
Certificates of participation	5,165,000	5,510,000	(345,000)
RDA Loans	251,681	283,141	(31,460)
Capital Leases	67,152	91,345	(24,193)
Compensated absences	1,805,616	1,559,324	246,292
Other postemployment benefits	10,503,827	8,790,190	1,713,637
Total	<u>\$ 54,436,893</u>	<u>\$ 55,023,987</u>	<u>\$ (587,094)</u>

FULLERTON SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2017

FACTORS BEARING ON THE DISTRICT'S FUTURE

The Governor signed the 2017-18 *Budget Act* and other budget-related bills on June 27, 2017.

Proposition 98

Overview

State budgeting for schools and community colleges is based primarily on Proposition 98, approved by voters in 1988 and amended in 1990. In this section, we provide an overview of Proposition 98 changes under the enacted budget package.

Proposition 98 Establishes Minimum Spending Level

Proposition 98 establishes a minimum spending requirement 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 attendance. The state can spend at the minimum guarantee or any level above it. Spending above the minimum guarantee one year typically becomes part of the base for calculating the minimum guarantee the next year. 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 is weak relative to per capita personal income and is paid when General Fund revenue is stronger.

2015-16 and 2016-17 Minimum Guarantees Down but Total Spending Up Slightly

The 2015-16 minimum guarantee has decreased \$379 million due to lower-than-expected General Fund revenue. Proposition 98 spending that year, however, has increased \$53 million due to various minor adjustments involving the Local Control Funding Formula (LCFF) and community college apportionments. The 2016-17 minimum guarantee has decreased \$558 million, again due to lower estimates of General Fund revenue. Proposition 98 spending that year has decreased by \$484 million, but total spending, including a settle-up payment of \$514 million, is up slightly (\$29 million) from the June 2016 level. The settle-up payment allows the state to cover some 2016-17 LCFF costs using funds set aside for Proposition 2 (2014) debt payments. In both 2015-16 and 2016-17, Proposition 98 spending is above the calculated minimum guarantees.

2017-18 Spending Up \$3.1 Billion Over Revised 2016-17 Level

In 2017-18, total spending across all segments is \$74.5 billion, an increase of \$3.1 billion (4.4 percent) from the revised 2016-17 level. For 2017-18, the state funds at the estimate of the minimum guarantee. This estimate builds upon the higher levels of spending provided in 2015-16 and 2016-17. (Had the state not funded above the guarantee in those two years, the 2017-18 guarantee would have been \$542 million lower.) Test 2 is the operative test in 2017-18, with the change in the guarantee attributable to a 3.7 percent increase in per capita personal income and a 0.05 percent decline in K-12 attendance. The increase in the guarantee also reflects a maintenance factor payment of \$536 million. Under the administration's estimates, the state would end 2017-18 with an outstanding maintenance factor obligation of \$900 million.

About One-Third of Increase Covered With Higher Property Tax Revenue

Of the total Proposition 98 spending provided in 2017-18, \$52.6 billion is state General Fund and \$21.9 billion is local property tax revenue. From 2016-17 to 2017-18, state General Fund increases \$2.1 billion (accounting for about two-thirds of the \$3.1 billion increase in spending) and property tax revenue increases by \$1 billion. The primary factor explaining the growth in property tax revenue is the projected 5.3 percent growth in assessed property values, which is similar to the average growth rate over the past 20 years. Regarding local revenue associated with the dissolution of redevelopment agencies, the budget plan assumes a net increase of \$31 million.

FULLERTON SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2017

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

Proposition 98 (continued)

Overview (continued)

About One-Third of Increase Covered With Higher Property Tax Revenue (continued)

This consists of a \$131 million increase in the ongoing revenue shifted to schools and community colleges, offset by a \$100 million decrease in revenue from the sale of assets formerly owned by redevelopment agencies.

Spending Package Reduces Outstanding Settle-Up Obligation by \$603 Million

The budget plan includes a \$603 million settle-up payment related to meeting the 2009-10 minimum guarantee. This payment reduces the state's outstanding settle-up obligation from slightly above \$1 billion to \$440 million. Of the \$603 million provided, the budget plan allocates \$514 million for covering 2016-17 LCFF costs, \$86 million for the community college guided pathways initiative, and \$3 million for the Career Technical Education Incentive Grant program. The state budget package scores all of the settle-up spending as a Proposition 2 debt payment.

K-12 Education

\$64.7 Billion Proposition 98 Funding for K-12 Education in 2017-18

The budgeted 2017-18 level is \$2.7 billion (4.3 percent) more than revised 2016-17 level and \$2.2 billion (3.6 percent) more than the 2016-17 Budget Act level. The budget increases funding per student by \$450 (4.3 percent) over the 2016-17 Budget Act level, bringing Proposition 98 funding per student up to \$10,863.

Package Includes Mix of Ongoing and One-Time Spending

The budget includes \$2.4 billion in augmentations for K-12 education. Of these augmentations, \$1.5 billion are ongoing increases and \$933 million are one-time initiatives. In addition to these changes, the budget package includes \$328 million in one-time initiatives funded from other sources. (Of this amount, \$325 million is from Proposition 98 reversion dollars and \$3 million is from a settle-up payment. Of the reversion dollars, \$114 million is for a fund swap primarily relating to special education.) The budget also authorizes \$593 million from Proposition 51 (2016) general obligation bond proceeds for school facilities.

General Purpose Funding

Accelerates Implementation of LCFF for School Districts and Charter Schools

The budget provides an additional \$1.4 billion ongoing Proposition 98 funding for this purpose, bringing total LCFF funding for school districts and charter schools to \$57.4 billion, a 2.7% increase over the revised 2016-17 level. The administration estimates this funding will result in the LCFF-target level being 97 percent-funded. School districts and charter schools may use LCFF monies for any educational purpose.

Funds One-Time Discretionary Grants

The largest one-time augmentation for K-12 education is \$877 million that local education agencies (LEAs) may use for any educational purpose. Funding is distributed based on average daily attendance (\$147 per ADA). If an LEA has unpaid mandate claims, funding counts toward those claims. As most LEAs do not have any such claims, we estimate only about one-third (\$268 million) of the funding will end up reducing the K-12 mandates backlog. We estimate the K-12 mandates backlog will be \$799 million at the end of 2017-18.

FULLERTON SCHOOL DISTRICT

*Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2017*

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

Proposition 98 (continued)

Other Changes

Specifies Use of Remaining Proposition 39 Funds and Extends Energy-Efficiency Programs Indefinitely

The budget provides \$423 million Proposition 98 funding for energy-efficiency projects at schools and community colleges. This reflects the fifth and final year of Proposition 39 (2012) funding. Trailer legislation, however, extends the date for schools to use this funding by one year, to June 30, 2019, and sets rules for how any remaining uncommitted funds are to be used. The first \$75 million in remaining funds is earmarked for school districts and COEs to replace or retrofit school buses. Priority is given to LEAs having the oldest buses, serving disadvantaged communities, or serving high shares of low-income students. The next \$100 million is earmarked for a competitive grant program to provide K-12 LEAs with low- and no-interest loans for energy projects. Any funding still remaining is to be distributed as grants to K-12 LEAs according to Proposition 39 rules. The trailer legislation also extends the Proposition 39 energy-efficiency programs for K-12 and CCC LEAs beginning in 2018-19, contingent upon funds being made available through the annual budget act or other statute.

Augments After School Education and Safety (ASES) Program

Proposition 49, passed by the voters in 2002, requires the state to provide \$550 million in Proposition 98 funds annually for the ASES program. Since Proposition 49 was enacted, ASES providers have received \$7.50 per child per day. The budget increases ASES funding by \$50 million (9%)—bringing total funding to \$600 million. The augmentation will increase the per-child per-day rate.

School Facilities

Provides First Installment of Proposition 51 Bond Funding for School Facilities

Passed by the voters in November 2016, Proposition 51 authorizes the state to sell \$9 billion in general obligation bonds—\$7 billion for schools and \$2 billion for community colleges. The state plans to issue \$593 million of these bonds for K-12 facility projects in 2017-18. This would fully fund the state's list of \$368 million in already approved facility projects, as well as \$225 million in additional projects.

Establishes New Audit Rules

Trailer legislation shifts audit responsibilities for state-funded school facility projects from the Office of Public School Construction to local independent auditors. Moving forward, the local auditors are to review facility expenditures to ensure that they comply with the rules of the state's School Facilities Program. In June 2017, the State Allocation Board also enacted a regulatory change requiring districts to sign grant agreements prior to receiving state funding that specify allowable project expenditures.

All of these factors were considered in preparing the Fullerton School District budget for the 2017-18 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. If you have any questions about this report or need additional financial information, contact Robert R. Coghlan, Ph.D., Assistant Superintendent, Business Services at (714) 447-7412.

FULLERTON SCHOOL DISTRICT*Statement of Net Position**June 30, 2017*

	<u>Total Governmental Activities</u>
ASSETS	
Cash	\$ 53,930,568
Accounts receivable	5,249,454
Inventories	119,540
Prepaid expenses	263,424
Non-depreciable assets	13,011,259
Depreciable assets	170,049,220
Less accumulated depreciation	<u>(94,714,540)</u>
Total assets	<u>147,908,925</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred amounts on refunding	1,289,928
Deferred outflows from pensions	<u>28,380,118</u>
Total deferred outflows of resources	<u>29,670,046</u>
LIABILITIES	
Accounts payable	7,937,396
Unearned revenue	451,883
Long-term liabilities:	
Portion due or payable within one year	3,298,960
Portion due or payable after one year	51,137,933
Net pension liability	<u>130,099,053</u>
Total liabilities	<u>192,925,225</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows from pensions	<u>10,562,287</u>
NET POSITION	
Net investment in capital assets	51,823,290
Restricted for:	
Capital projects	4,953,942
Debt service	3,200,241
Educational programs	6,498,104
Unrestricted	<u>(92,384,118)</u>
Total net position	<u>\$ (25,908,541)</u>

FULLERTON SCHOOL DISTRICT
Statement of Activities
For the Fiscal Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
Governmental Activities				
Instructional Services:				
Instruction	\$ 95,512,945	\$ 19,519	\$ 20,087,836	\$ (75,405,590)
Instruction-Related Services:				
Supervision of instruction	4,381,244	1,580	1,235,090	(3,144,574)
Instructional library, media and technology	5,720,610	9	129,576	(5,591,025)
School site administration	10,538,445	41	725,342	(9,813,062)
Pupil Support Services:				
Home-to-school transportation	2,279,568	-	-	(2,279,568)
Food services	5,680,584	-	4,212,762	(1,467,822)
All other pupil services	5,431,036	2,085	1,651,138	(3,777,813)
General Administration Services:				
Other general administration	7,090,722	-	645,433	(6,445,289)
Plant services	10,532,757	-	1,285,359	(9,247,398)
Interest on long-term debt	1,794,480	-	-	(1,794,480)
Transfers between agencies	1,119,761	2,367	1,701,156	583,762
Depreciation (unallocated)	4,829,844	-	-	(4,829,844)
Total Governmental Activities	<u>\$ 154,911,996</u>	<u>\$ 25,601</u>	<u>\$ 31,673,692</u>	<u>\$ (123,212,703)</u>
General Revenues:				
Property taxes				51,066,259
Federal and state aid not restricted to specific purpose				65,708,074
Interest and investment earnings				400,093
Miscellaneous				4,891,812
Total general revenues				<u>122,066,238</u>
Change in net position				(1,146,465)
Net position - July 1, 2016				<u>(24,762,076)</u>
Net position - June 30, 2017				<u><u>\$ (25,908,541)</u></u>

FULLERTON SCHOOL DISTRICT
Balance Sheet – Governmental Funds
June 30, 2017

	General Fund	Cafeteria Special Revenue Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS				
Cash	\$ 38,232,109	\$ 2,497,405	\$ 9,206,518	\$ 49,936,032
Accounts receivable	4,343,569	438,468	454,096	5,236,133
Due from other funds	803,899	-	10,738	814,637
Inventories	23,637	95,903	-	119,540
Prepaid expenditures	260,681	2,743	-	263,424
Total Assets	\$ 43,663,895	\$ 3,034,519	\$ 9,671,352	\$ 56,369,766
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 4,477,688	\$ 51,888	\$ 478,256	\$ 5,007,832
Due to other funds	26,197	610,227	187,638	824,062
Unearned revenue	198,518	157,854	95,511	451,883
Total Liabilities	4,702,403	819,969	761,405	6,283,777
Fund Balances				
Nonspendable	334,318	99,467	-	433,785
Restricted	3,576,145	2,115,083	8,909,947	14,601,175
Assigned	10,135,153	-	-	10,135,153
Unassigned	24,915,876	-	-	24,915,876
Total Fund Balances	38,961,492	2,214,550	8,909,947	50,085,989
Total Liabilities and Fund Balances	\$ 43,663,895	\$ 3,034,519	\$ 9,671,352	\$ 56,369,766

FULLERTON SCHOOL DISTRICT

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position June 30, 2017

Total fund balances - governmental funds \$ 50,085,989

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

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

Capital assets at historical cost:	183,060,479	
Accumulated depreciation:	<u>(94,714,540)</u>	
Net:		88,345,939

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

1,289,928

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

(472,198)

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 government-wide statements, consist of:

General obligation bonds payable	36,643,617	
Certificates of participation payable	5,165,000	
Fullerton RDA loan payable	251,681	
Capital leases payable	67,152	
Compensated absences	1,805,616	
Other postemployment benefits payable	<u>10,503,827</u>	
Total		(54,436,893)

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.

(130,099,053)

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

Deferred outflows of resources relating to pensions	28,380,118	
Deferred inflows of resources relating to pensions	<u>(10,562,287)</u>	
Net:		17,817,831

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

1,559,916

Total net position - governmental activities \$ (25,908,541)

FULLERTON SCHOOL DISTRICT*Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
For the Fiscal Year Ended June 30, 2017*

	General Fund	Cafeteria Special Revenue Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES				
LCFF Sources	\$ 107,324,758	\$ -	\$ -	\$ 107,324,758
Federal Sources	6,554,193	4,208,846	23,400	10,786,439
Other State Sources	14,469,180	231,109	1,894,915	16,595,204
Other Local Sources	10,188,507	1,186,387	7,189,159	18,564,053
Total Revenues	<u>138,536,638</u>	<u>5,626,342</u>	<u>9,107,474</u>	<u>153,270,454</u>
EXPENDITURES				
Current:				
Instruction	89,686,383	-	3,450,133	93,136,516
Instruction-related services:				
Supervision of instruction	4,225,326	-	77,140	4,302,466
Instructional library, media and technology	5,567,078	-	-	5,567,078
School site administration	9,516,031	-	666,013	10,182,044
Pupil support services:				
Home-to-school transportation	2,136,677	-	-	2,136,677
Food services	-	5,564,961	-	5,564,961
All other pupil services	5,220,430	-	123,696	5,344,126
Ancillary Services	18,847	-	-	18,847
General administration services:				
Other general administration	6,925,366	-	-	6,925,366
Plant services	9,762,929	-	82,802	9,845,731
Transfers of indirect costs	(435,828)	235,969	199,859	-
Capital outlay	3,758,713	50,226	5,613,917	9,422,856
Intergovernmental	1,119,761	-	-	1,119,761
Debt service:				
Principal	345,000	-	2,574,956	2,919,956
Interest	193,181	-	1,142,206	1,335,387
Total Expenditures	<u>138,039,894</u>	<u>5,851,156</u>	<u>13,930,722</u>	<u>157,821,772</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	496,744	(224,814)	(4,823,248)	(4,551,318)
Fund Balances, July 1, 2016	<u>38,464,748</u>	<u>2,439,364</u>	<u>13,733,195</u>	<u>54,637,307</u>
Fund Balances, June 30, 2017	<u>\$ 38,961,492</u>	<u>\$ 2,214,550</u>	<u>\$ 8,909,947</u>	<u>\$ 50,085,989</u>

FULLERTON 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, 2017

Total net change in fund balances - governmental funds \$ (4,551,318)

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

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

Expenditures for capital outlay	9,097,580	
Depreciation expense	<u>(4,829,844)</u>	
Net expense adjustment:		4,267,736

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 a reduction of liabilities. Expenditures for repayment of the principal portion of long-term debt were: 2,920,509

The amounts paid to the refunded bond escrow agent in excess of the refunded bond at the time of payment are recorded as deferred amounts on refunding and are amortized to interest expense over the life of the liability. Deferred amounts incurred, less amortization of this amount during the year was: (127,887)

In governmental funds, proceeds from capital leases are recognized as other financing sources. In the government-wide statements, proceeds from capital leases are reported as an increase to liabilities. Amounts recognized in governmental funds as proceeds from capital leases were: (74,856)

In governmental funds, if debt is issued at a premium or at a discount, the premium or discount is recognized as an other financing source or an other financing use in the period it is incurred. In the government-wide statements, the premium or discount is amortized as interest over the life of the debt. Amortization of premium or discount for the period is: 239,376

In governmental funds, accreted interest on capital appreciation bonds is not recorded as an expenditure from current resources. In the government-wide statement of activities, however, this is recorded as interest expense for the period: (538,006)

In governmental funds, postemployment benefit costs are recognized as expenditures in the period they are paid. In the government-wide statements, postemployment benefit costs are recognized in the period that they are incurred. The increase in the net OPEB liability at the end of the period was: (1,713,637)

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: 41,728

In governmental funds, pension costs are recognized when employer contributions are made. In the statement of activities pension costs are recognized on the accrual basis. This year, the difference between accrual-basis pension costs and actual employer contributions was: (1,661,777)

In the statement of activities, certain operating expenses - compensated absences and early retirement incentives, for example 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). This year, amounts paid exceeded amounts earned by: (246,292)

The internal service fund is used by management to charge the cost of self-insurance activities. The net revenue (expense) of the internal service fund is reported with governmental activities. 297,959

Change in net position - governmental activities \$ (1,146,465)

FULLERTON SCHOOL DISTRICT
Statement of Net Position – Proprietary Funds
June 30, 2017

	Governmental Activities Internal Service Fund
ASSETS	
Cash	\$ 3,994,536
Accounts receivable	13,321
Due from other funds	15,459
	<hr/>
Total assets	4,023,316
	<hr/>
LIABILITIES	
Accounts payable and accrued liabilities	67,410
Due to other funds	6,034
Estimated liability for open claims and IBNR	2,389,956
	<hr/>
Total liabilities	2,463,400
	<hr/>
NET POSITION	
Restricted	\$ 1,559,916
	<hr/> <hr/>

FULLERTON SCHOOL DISTRICT*Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds
For the Fiscal Year Ended June 30, 2017*

	Governmental Activities Internal Service Fund
OPERATING REVENUES	
Charges to other funds	\$ 1,900,265
Other fees and contracts	<u>(311)</u>
Total operating revenues	<u>1,899,954</u>
OPERATING EXPENSES	
Current:	
Classified salaries	148,311
Employee benefits	72,047
Books and supplies	66,674
Services and other operating expenditures	<u>1,347,396</u>
Total operating expenses	<u>1,634,428</u>
Operating Income (Loss)	265,526
NON-OPERATING REVENUES	
Interest income	<u>32,433</u>
Change in net position	297,959
Net position, July 1, 2016	<u>1,261,957</u>
Net position, June 30, 2017	<u><u>\$ 1,559,916</u></u>

FULLERTON SCHOOL DISTRICT
Statement of Cash Flows - Proprietary Funds
For the Fiscal Year Ended June 30, 2017

	Governmental Activities Internal Service Fund
<i>CASH FLOWS FROM OPERATING ACTIVITIES</i>	
Received from in-district premiums	\$ 1,899,289
Payments to employees and fringe benefits	(286,582)
Payments to vendors and suppliers	(683,632)
Payments on insurance claims	(506,261)
Other receipts (payments)	(18,720)
Net cash provided (used) by operating activities	<u>404,094</u>
<i>CASH FLOWS FROM INVESTING ACTIVITIES</i>	
Investment income	<u>31,558</u>
Net increase (decrease) in cash	435,652
Cash, July 1, 2016	3,558,884
Cash, June 30, 2017	<u>\$ 3,994,536</u>
<i>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</i>	
Operating income (loss)	\$ 265,526
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Receivables, net	(10,001)
Due from other funds	(977)
Estimated liability for open claims and IBNRs	100,265
Accounts payable and accrued liabilities	48,814
Due to other funds	467
Net cash (used) by operating activities	<u>\$ 404,094</u>

FULLERTON SCHOOL DISTRICT
Statement of Fiduciary Net Position
June 30, 2017

	Agency Funds		Total
	Associated Student Body Funds	Debt Service Fund for Special Tax Bonds	
ASSETS			
Cash	\$ 291,999	\$ 18,291	\$ 310,290
Investments	-	2,311,139	2,311,139
Accounts receivable	-	69	69
Total Assets	\$ 291,999	\$ 2,329,499	\$ 2,621,498
LIABILITIES			
Accounts payable	\$ -	\$ 12,230	\$ 12,230
Unearned revenue	-	1,754,648	1,754,648
Due to student groups	291,999	-	291,999
Due to bondholders	-	562,621	562,621
Total Liabilities	\$ 291,999	\$ 2,329,499	\$ 2,621,498

FULLERTON SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fullerton 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 Fullerton 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. 14, *The Financial Reporting Entity*, 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 governing board of the component units is essentially the same as the governing board of the District and because their purpose is to finance the construction of facilities to be used for the direct benefit of the District.

The Fullerton School District Capital Facilities Corporation (the Corporation) financial activity are presented in the financial statements as the Capital Projects for Blended Component Units Fund and the Debt Service for Blended Component Units Fund. Certificates of participation and other debt issued by the Corporation are included as long-term liabilities in the government-wide financial statements. Individually prepared financial statements are not prepared for the Corporation.

The Fullerton 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.

FULLERTON SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

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). These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

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

Fund Financial Statements

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

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

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 also maintained a Deferred Maintenance Fund. The Deferred Maintenance Fund does not meet the definition of special revenue funds as it is not primarily composed of restricted or committed revenue sources. Because this fund does not meet the definition of special revenue funds under GASB 54, the activity in that fund is being reported within the General Fund.

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

FULLERTON SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

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 Fund:

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

Capital Projects Funds:

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

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

Special Reserve Fund for Capital Outlay Projects: This fund is used to account for funds set aside for Board designated construction projects.

Debt Service Fund:

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

Proprietary Funds

Proprietary fund reporting focuses on the determination of operating income, changes in Net Position, financial position, and cash flows. Proprietary funds are classified as enterprise or internal service. The District has the following proprietary fund:

Self-Insurance Fund: This fund may be used to account for any activity for which goods or services are provided to other funds of the District in return for a fee to cover the cost of operations. The District operates a workers' compensation program that is accounted for in a self-insurance service fund.

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.

FULLERTON SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

1. Basis of Presentation (continued)

Fiduciary Funds (continued)

The District maintains the following fiduciary funds:

Debt Service Fund for Special Tax Bonds: This fund is used to account for the accumulation of resources for the payment of principal and interest on bonds issued by Mello-Roos Community Facilities Districts that are considered blended component units of the District.

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

2. Measurement Focus, Basis of Accounting

Government-Wide, Proprietary, and Fiduciary Fund Financial Statements

The government-wide, proprietary, 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.

FULLERTON SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

3. Revenues - Exchange and Non-Exchange Transactions (continued)

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, 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.

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.

FULLERTON SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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. The District has two items that qualify for reporting in this category. The first item is related to its pension plans as more fully described in the footnote entitled "Pension Plans". The second is deferred amount on refunding, which resulted from the difference in the carrying value of refunded debt and its reacquisition price. This amount is shown as deferred and amortized over the shorter of the life of the refunded or refunding debt.

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. The District has one item that qualifies for reporting in this category. That item is to recognize the District's proportionate share of the deferred inflows of resources related to its pension plans as more fully described in the footnote entitled "Pension Plans".

FULLERTON SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

6. Compensated Absences

The liability for compensated absences reported in the government-wide statements consists of unpaid, accumulated annual vacation 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. 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.

8. 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.

FULLERTON SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

9. 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

During the 2010-11 fiscal year, pursuant to GASB Statement No. 54, the District adopted a minimum fund balance policy for the General Fund in order to protect the District against revenue shortfalls or unpredicted expenditures. The policy requires a Reserve for Economic Uncertainties consisting of unassigned amounts equal to no less than three percent of total General Fund expenditures and other financing uses.

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.

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.

FULLERTON SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 2016-17 fiscal year, the following GASB Pronouncements became effective:

1. Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68 (Issued 06/15)*

The requirements of this Statement extend the approach to accounting and financial reporting established in Statement 68 to all pensions, with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in Statement 68 should not be considered pension plan assets. It also requires that information similar to that required by Statement 68 be included in notes to financial statements and required supplementary information by all similarly situated employers and nonemployer contributing entities.

2. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (Issued 06/15)*

This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. The scope of this Statement includes OPEB plans – defined benefit and defined contribution – administered through trusts that meet the following criteria:

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the OPEB plan administrator. If the plan is a defined benefit OPEB plan, plan assets also are legally protected from creditors of the plan members.

3. Statement No. 77, *Tax Abatement Disclosures (Issued 08/15)*

For financial reporting purposes, this Statement defines a tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens. This Statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements, and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues.

FULLERTON SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. New GASB Pronouncements (continued)

4. Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans (Issued 12/15)*

This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan).

5. Statement No. 80, *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14 (Issued 01/16)*

This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member.

6. Statement No. 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73 (Issued 03/16)*

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

FULLERTON SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2017

NOTE 2 – CASH AND INVESTMENTS

Cash and investments at June 30, 2017, are reported at fair value and consisted of the following:

	Governmental Activities		Total	Fiduciary Funds
	Governmental Funds	Proprietary Fund		
Pooled Funds:				
Cash in county treasury	\$ 47,245,027	\$ 3,869,536	\$ 51,114,563	\$ 18,291
Cash with fiscal agent	143,600	-	143,600	-
Total Pooled Funds	47,388,627	3,869,536	51,258,163	18,291
Deposits:				
Cash on hand and in banks	2,496,584	-	2,496,584	291,999
Cash in revolving fund	50,821	125,000	175,821	-
Total Deposits	2,547,405	125,000	2,672,405	291,999
Total Cash	\$ 49,936,032	\$ 3,994,536	\$ 53,930,568	\$ 310,290
Investments:				
US Bank - Money Market				<u>\$ 2,311,139</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, 2017, 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).

FULLERTON SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 2 – CASH AND INVESTMENTS (continued)

Custodial Credit Risk – Deposits (continued)

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, 2017, \$3,097,242 of the District's bank balance was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agency, but not in the name of the District.

Investments – Interest Rate Risk

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

Maturities of investments held at June 30, 2017, consist of the following:

	Fair Value	Maturity	
		Less Than One Year	One Year Through Five Years
Investment maturities:			
U.S. Bank - Money Market	\$ 2,311,139	\$ 2,311,139	\$ -

Investments – Credit Risk

The District's investment policy limits investment choices to obligations of local, state and federal agencies, commercial paper, certificates of deposit, repurchase agreements, corporate notes, banker acceptances, and other securities allowed by State Government Code Section 53600. At June 30, 2017, all investments represented governmental securities which were issued, registered and held by the District's agent in the District's name.

Investments – Concentration of Credit Risk

The District does not place limits on the amount it may invest in any one issuer. At June 30, 2017, the District had the following investment that represents more than five percent of the District's net investments.

U.S. Bank - Money Market	100%
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FULLERTON SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2017

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2017, consisted of the following:

	General Fund	Cafeteria Special Revenue Fund	Non-Major Governmental Funds	Total Governmental Funds	Proprietary Fund
Federal Government:					
Categorical aid programs	\$ 964,273	\$ 412,496	\$ -	\$ 1,376,769	\$ -
State Government:					
Lottery	1,265,566	-	-	1,265,566	-
Categorical aid programs	1,064,702	25,748	-	1,090,450	-
Local:					
Special education	448,278	-	24,711	472,989	-
Interest	63,038	178	6,106	69,322	13,321
Other local	537,712	46	423,279	961,037	-
Total	<u>\$ 4,343,569</u>	<u>\$ 438,468</u>	<u>\$ 454,096</u>	<u>\$ 5,236,133</u>	<u>\$ 13,321</u>

NOTE 4 – INTERFUND TRANSACTIONS

Balances Due To/From Other Funds

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

	Due from Other Funds			
	General Fund	Non-Major Governmental Funds	Proprietary Fund	Total
General Fund	\$ -	\$ 10,738	\$ 15,459	\$ 26,197
Cafeteria Special Revenue Fund	610,227	-	-	610,227
Non-Major Funds	187,638	-	-	187,638
Proprietary Fund	6,034	-	-	6,034
Total	<u>\$ 803,899</u>	<u>\$ 10,738</u>	<u>\$ 15,459</u>	<u>\$ 830,096</u>
Child Development Fund due to General Fund for payroll, program and indirect costs				\$ 185,054
Capital Facilities Fund due to General Fund for payroll expense and program costs				2,584
Self-Insurance Fund due to General Fund for payroll expense				6,034
Cafeteria Special Revenue Fund due to General Fund for payroll and program costs				610,227
General Fund due to Capital Facilities Fund for sales tax transaction				14
General Fund due to Child Development Fund for revenues, indirect costs, and expenditure reimbursement				10,724
General Fund due to Self-Insurance Fund for workers' compensation expense				15,459
Total				<u>\$ 830,096</u>

FULLERTON SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2017

NOTE 5 – FUND BALANCES

At June 30, 2017, fund balances of the District’s governmental funds were classified as follows:

	General Fund	Cafeteria Special Revenue Fund	Non-Major Governmental Funds	Total
Nonspendable:				
Revolving cash	\$ 50,000	\$ 821	\$ -	\$ 50,821
Stores inventories	23,637	95,903	-	119,540
Prepaid expenditures	260,681	2,743	-	263,424
Total Nonspendable	334,318	99,467	-	433,785
Restricted:				
Categorical programs	3,576,145	-	-	3,576,145
Child development program	-	-	707,409	707,409
Child nutrition program	-	2,115,083	-	2,115,083
Capital projects	-	-	5,002,297	5,002,297
Debt service	-	-	3,200,241	3,200,241
Total Restricted	3,576,145	2,115,083	8,909,947	14,601,175
Assigned:				
LCFF Supplemental 302	788,691	-	-	788,691
LCFF Base 304	336,150	-	-	336,150
Instructional materials K-8	1,403,592	-	-	1,403,592
One-time mandated cost	1,388,338	-	-	1,388,338
St. Jude Grant	32,518	-	-	32,518
St. Joseph Health Grant	31,500	-	-	31,500
District Testing 508	32,252	-	-	32,252
Textbook Adoptions	3,400,000	-	-	3,400,000
Deferred maintenance program	922,112	-	-	922,112
Infrastructure Improvements	1,800,000	-	-	1,800,000
Total Assigned	10,135,153	-	-	10,135,153
Unassigned:				
Reserve for economic uncertainties	4,128,143	-	-	4,128,143
Remaining unassigned balances	20,787,733	-	-	20,787,733
Total Unassigned	24,915,876	-	-	24,915,876
Total	\$ 38,961,492	\$ 2,214,550	\$ 8,909,947	\$ 50,085,989

FULLERTON SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2017

NOTE 6 – CAPITAL ASSETS AND DEPRECIATION

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

	Balance, July 1, 2016	Additions	Retirements	Balance, June 30, 2017
Capital assets not being depreciated:				
Land	\$ 9,198,655	\$ -	\$ -	\$ 9,198,655
Construction in progress	933,675	3,466,154	587,225	3,812,604
Total capital assets not being depreciated	<u>10,132,330</u>	<u>3,466,154</u>	<u>587,225</u>	<u>13,011,259</u>
Capital assets being depreciated:				
Improvement of sites	20,251,644	1,112,927	-	21,364,571
Buildings and improvements	130,389,540	4,949,525	-	135,339,065
Machinery and equipment	13,469,504	156,199	280,119	13,345,584
Total capital assets being depreciated	<u>164,110,688</u>	<u>6,218,651</u>	<u>280,119</u>	<u>170,049,220</u>
Accumulated depreciation for:				
Improvement of sites	(17,597,534)	(209,018)	-	(17,806,552)
Buildings and improvements	(62,010,904)	(4,037,350)	-	(66,048,254)
Machinery and equipment	(10,556,377)	(583,476)	(280,119)	(10,859,734)
Total accumulated depreciation	<u>(90,164,815)</u>	<u>(4,829,844)</u>	<u>(280,119)</u>	<u>(94,714,540)</u>
Total capital assets being depreciated, net	<u>73,945,873</u>	<u>1,388,807</u>	<u>-</u>	<u>75,334,680</u>
Governmental activity capital assets, net	<u>\$ 84,078,203</u>	<u>\$ 4,854,961</u>	<u>\$ 587,225</u>	<u>\$ 88,345,939</u>

NOTE 7 – GENERAL LONG-TERM DEBT

Changes in long-term debt for the year ended June 30, 2017, were as follows:

	Balance, July 1, 2016	Additions	Deductions	Balance, June 30, 2017	Amount Due Within One Year
General Obligation Bonds:					
Principal payments	\$ 31,175,458	\$ -	\$ 2,445,000	\$ 28,730,458	\$ 2,660,000
Accreted interest	5,014,006	538,006	-	5,552,012	-
Unamortized issuance premium	2,600,523	-	239,376	2,361,147	239,376
Total General Obligation Bonds	<u>38,789,987</u>	<u>538,006</u>	<u>2,684,376</u>	<u>36,643,617</u>	<u>2,899,376</u>
Certificates of Participation	5,510,000	-	345,000	5,165,000	355,000
Fullerton RDA Loan	283,141	-	31,460	251,681	31,460
Capital Leases	91,345	74,856	99,049	67,152	13,124
Compensated Absences	1,559,324	246,292	-	1,805,616	-
Other Postemployment Benefits	8,790,190	1,713,637	-	10,503,827	-
Totals	<u>\$ 55,023,987</u>	<u>\$ 2,572,791</u>	<u>\$ 3,159,885</u>	<u>\$ 54,436,893</u>	<u>\$ 3,298,960</u>

Payments for general obligation bonds are made by the Bond Interest and Redemption Fund. Certificates of Participation payments are made by the General Fund. Capital leases payments are made by the Building Fund. RDA loan payments are made from the Capital Facilities Fund. Accumulated vacation, pensions, and other postemployment benefits will be paid for by the fund for which the employee worked.

FULLERTON SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

A. General Obligation Bonds

On March 5, 2002, a special election was held at which more than 55 percent of the voters in the District approved Measure “CC”, which authorized the issuance and sale of \$49.7 million of general obligation bonds. 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. The bonds were issued to finance the construction of new facilities, such as multipurpose rooms, and renovation and improvement at existing schools and to fund a portion of the cost of construction of a new elementary school.

2010 General Obligation Refunding Bonds

On December 1, 2010, the District issued \$27,645,000 of 2010 General Obligation Refunding Bonds. The bonds consist of serial bonds bearing fixed rates ranging from 2.0% to 5.0% with annual maturities from August 2011 through August 2026. The net proceeds of \$30,215,831 (after issuance costs of \$389,721, plus premium of \$2,960,552) were used to advance refund \$27,645,000 of the District’s outstanding Election of 2002, Series A General Obligation Bonds, in addition to paying the costs of issuance associated with the refunding bonds. Amounts paid to the refunded bond escrow agent in excess of the outstanding debt at the time of payment are recorded as deferred amounts on the refunding on the statement of net position and are amortized to interest expense over the life of the liability. Deferred amounts on the refunding of \$1,047,407 remain to be amortized. As of June 30, 2017, all principal balance on the defeased debt was paid.

2014 Refunding General Obligation Bonds

On September 18, 2014, the District issued \$6,080,000 of General Obligation Refunding Bonds. The bonds bear fixed interest rates between 3.0% and 5.0% with annual maturities from August 1, 2015 through August 1, 2026. The net proceeds of \$6,685,239 (after premiums of \$782,710 and issuance costs of \$177,471) were used to prepay the District’s outstanding General Obligation Bonds.

The net proceeds were used to purchase U.S. government securities. Those securities were deposited into an irrevocable trust with an escrow agent to provide for future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased, and the related liability for the bonds has been removed from the District’s liabilities. Amounts paid to the escrow agent in excess of the outstanding debt at the time of payment are recorded as deferred charges on refunding on the statement of net assets and are amortized to interest expense over the life of the liability. Deferred amounts on refunding of \$133,922 remain to be amortized. As of June 30, 2017, all principal balance on the defeased debt was paid.

A summary of outstanding general obligation bonds issued is presented below:

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Balance, July 1, 2016	Additions	Deductions	Balance June 30, 2017
2002 A	7/3/2002	8/1/2023	3.25%-5.375%	\$ 40,000,458	\$ 4,545,458	\$ -	\$ -	\$ 4,545,458
2010 Ref.	12/1/2010	8/1/2026	2.0%-5.0%	27,645,000	20,630,000	-	2,025,000	18,605,000
2014 Ref.	9/18/2014	8/1/2026	3.0%-5.0%	6,080,000	6,000,000	-	420,000	5,580,000
				<u>\$ 73,725,458</u>	<u>\$ 31,175,458</u>	<u>\$ -</u>	<u>\$ 2,445,000</u>	<u>\$ 28,730,458</u>

FULLERTON SCHOOL DISTRICT*Notes to Financial Statements**June 30, 2017***NOTE 7 – GENERAL LONG-TERM DEBT (continued)****A. General Obligation Bonds (continued)**

The annual requirements to amortize all general obligation bonds payable outstanding as of June 30, 2017, were as follows:

Fiscal Year	Principal	Interest	Total
2017-18	\$ 2,660,000	\$ 1,091,475	\$ 3,751,475
2018-19	2,885,000	987,000	3,872,000
2019-20	3,135,000	858,675	3,993,675
2020-21	1,692,188	3,343,857	5,036,045
2021-22	1,694,698	3,479,675	5,174,373
2022-27	16,663,572	7,343,254	24,006,826
Total	<u>\$ 28,730,458</u>	<u>\$ 17,103,936</u>	<u>\$ 45,834,394</u>

B. Certificates of Participation**2011 Refunding Certificates of Participation**

On November 10, 2011, the District issued \$6,935,000 of Refunding Certificates of Participation. The Certificates bear fixed interest rates averaging 3.4% with annual maturities from June 1, 2012 through June 1, 2029. The net proceeds of \$6,832,899 (after issuance costs of \$102,101) were used to prepay the District's outstanding Certificates of Participation.

The net proceeds were used to purchase U.S. government securities. Those securities were deposited into an irrevocable trust with an escrow agent to provide for future debt service payments on the refunded certificates. As a result, the refunded certificates are considered to be defeased, and the related liability for the certificates has been removed from the District's liabilities. Amounts paid to the escrow agent in excess of the outstanding debt at the time of payment are recorded as deferred amounts on refunding on the statement of net position and are amortized to interest expense over the life of the liability. Deferred amounts on refunding of \$108,599 remain to be amortized.

As of June 30, 2017, the annual requirements to amortize all certificates were as follows:

Fiscal Year	Principal	Interest	Total
2017-18	\$ 355,000	\$ 172,635	\$ 527,635
2018-19	365,000	160,480	525,480
2019-20	380,000	147,985	527,985
2020-21	395,000	134,810	529,810
2021-22	405,000	121,380	526,380
2022-27	2,250,000	388,110	2,638,110
2027-29	1,015,000	43,350	1,058,350
Total	<u>\$ 5,165,000</u>	<u>\$ 1,168,750</u>	<u>\$ 6,333,750</u>

FULLERTON SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

C. Fullerton Redevelopment Agency Loan

An agreement was entered into May 16, 2000 for the Fullerton Redevelopment Agency to loan \$1,320,000 to the District for the expansion of Maple Elementary School. The District received the proceeds from the loan July, 2000. The loan does not accrue interest. Payments are due each July beginning in 2001 for 25 years.

The payment amount is based on the outstanding loan balance at each June 30. Repayment requirements on the June 30, 2017 balance are as follows:

Fiscal Year	Principal
2017-18	\$ 31,460
2018-19	31,460
2019-20	31,460
2020-21	31,460
2021-22	31,460
2022-25	94,381
Total	<u>\$ 251,681</u>

D. Capital Leases

The District leases equipment valued at \$654,250 under agreements that provide for title to pass upon expiration of the lease period. Future minimum lease payments are as follows:

Fiscal Year	Principal	Interest
2017-18	\$ 13,124	\$ 4,506
2018-19	14,086	3,544
2019-20	15,125	2,507
2020-21	16,246	1,385
2021-22	8,571	244
Total	<u>\$ 67,152</u>	<u>\$ 12,186</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 Marks-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.

FULLERTON SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

E. Non-Obligatory Debt (continued)

On August 8, 2013, the Fullerton School District Financing Authority issued \$16,475,000 in special tax revenue refunding bonds. The bonds were issued to refund two outstanding bonds previously issued by the Community Facilities Districts formed by Fullerton School District. The bonds carry stated interest rates ranging between 2.00% - 5.25% and fully mature in September 2031. Special assessment debt of \$14,460,000 as of June 30, 2017, does not represent debt of the District and, as such, does not appear in the financial statements.

NOTE 8 – JOINT POWERS AGREEMENTS

The Fullerton School District participates in two joint ventures under a joint powers agreement (JPA), the Schools Excess Liability Fund (SELF) and Alliance of Schools for Cooperative Insurance Programs (ASCIP). The relationship between the Fullerton School District and the JPAs is such that the JPAs are not a component unit of the District for financial reporting purposes as explained below:

SELF arranges for and provides a self-funded excess liability fund for approximately 1,100 public educational agencies. ASCIP arranges for and provides property and liability insurance for its member school districts. The JPAs are governed by boards consisting of representatives from certain member districts. The Boards control the operation of the JPAs, including selection of management and approval of operating budgets, independent of any influence by the members beyond their representation of the Board. Each member pays an annual contribution based upon that calculated by the JPAs' Boards and shares surpluses and deficits proportionately to its participation in the JPAs.

The Fullerton School District also participates in a JPA that meets the definition of a component unit, as described below:

The Fullerton School District Financing Authority is a joint exercise of powers agency comprised of the Fullerton School District and Community Facilities District No. 2000-1. Its purpose is to provide financing and refinancing for public capital improvements.

Condensed financial information is as follows:

	SELF June 30, 2016	ASCIP June 30, 2016	FSD Finance Authority June 30, 2017
Total Assets	\$ 138,820,266	\$ 407,081,077	\$ 1,717,157
Deferred outflows-pensions	266,414	1,224,143	-
Total Liabilities	117,306,926	222,632,775	-
Deferred inflows-pensions	245,133	857,574	-
Net Position	<u>\$ 21,534,621</u>	<u>\$ 184,814,871</u>	<u>\$ 1,717,157</u>
Total Revenues	\$ 10,982,004	\$ 265,742,395	\$ 2,023,417
Total Expenses	<u>24,553,606</u>	<u>246,800,516</u>	<u>2,012,452</u>
Total Non-Operating Revenues	2,916,594	8,305,291	-
Change in Net Position	<u>\$ (10,655,008)</u>	<u>\$ 27,247,170</u>	<u>\$ 10,965</u>

FULLERTON SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 9 – COMMITMENTS AND CONTINGENCIES

A. State and Federal Allowances, Awards, and Grants

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

B. Construction Commitments

As of June 30, 2017, the District had commitments with respect to unfinished capital projects of approximately \$302,000 to be paid from a combination of State and local funds.

C. Litigation

The District is the defendant in a number of lawsuits arising principally in the normal course of operations. In the opinion of the administration, the outcome of these lawsuits will not have a materially adverse effect on the accompanying financial statements and accordingly, no provision for losses has been recorded beyond claims payable and incurred but not reported reserves established in the Self-Insurance Internal Service Fund.

NOTE 10 – RISK MANAGEMENT

Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2017, the District was self-insured for property and liability losses with specific deductibles, but participated in the ASCIP public entity risk pool for excess property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years.

Workers' Compensation

For fiscal year 2017, the District was self-funded for workers compensation, with coverage purchased from a private insurer for claims in excess of the \$1.0 million retention amount.

Employee Medical Benefits

The District has contracted through Self-Insured Schools of California (SISC), Anthem Blue Cross and Kaiser Permanente to provide employee medical and surgical benefits, Delta Dental and Deltacare USA for dental benefits and Vision Service Plan (VSP).

Claims Liability

The District records an estimated liability for workers' compensation claims against the District. Claims liabilities are based on estimates of the ultimate cost of reported claims (including future claim adjustment expenses) and an estimate for claims incurred but not reported based on historical experience.

Unpaid Claims Liabilities

The District establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses.

FULLERTON SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 10 – RISK MANAGEMENT (continued)

The following represent the changes in approximate aggregate liabilities for the District from July 1, 2015 to June 30, 2017:

	Workers' Compensation
Liability Balance, July 1, 2015	\$ 2,018,431
Claims and changes in estimates	1,722,891
Claims payments	<u>(1,451,631)</u>
Liability Balance, June 30, 2016	2,289,691
Claims and changes in estimates	1,447,661
Claims payments	<u>(1,347,396)</u>
Liability Balance, June 30, 2017	<u>\$ 2,389,956</u>
Assets available to pay claims at June 30, 2017	<u>\$ 4,023,316</u>

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 California Public Employees' Retirement System (CalPERS).

A. General Information about the Pension Plans

Plan Descriptions

The District contributes to the California State Teachers' Retirement System (CalSTRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. Benefit provisions under the Plan are established by State statute and District resolution. CalSTRS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions, and membership information that can be found on the CalSTRS website.

The District also contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Benefit provisions under the Plan are established by State statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions, and membership information that can be found on the CalPERS website.

Benefits Provided

CalSTRS provides retirement, disability, and death benefits. Retirement benefits are determined as 2% of final compensation for each year of credited service at age 60 for members under *CalSTRS 2% at 60*, or age 62 for members under *CalSTRS 2% at 62*, increasing to a maximum of 2.4% at age 63 for members under *CalSTRS 2% at 60*, or age 65 for members under *CalSTRS 2% at 62*. The normal retirement eligibility requirements are age 60 for members under *CalSTRS 2% at 60*, or age 62 for members under *CalSTRS 2% at 62*, with a minimum of five years of service credited under the Defined Benefit Program, which can include service purchased from teaching in an out-of-state or foreign public school. Employees are eligible for service-related disability benefits after five years of service, unless the member is disabled due to an unlawful act of bodily injury committed by another person while working in CalSTRS covered employment, in which case the minimum is one year.

FULLERTON SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 11 – PENSION PLANS (continued)

A. General Information about the Pension Plans (continued)

Benefits Provided (continued)

Disability benefits are equal to fifty percent of final compensation regardless of age and service credit. Designated recipients of CalSTRS retired members receive a \$6,163 lump-sum death payment. There is a 2% simple increase each September 1 following the first anniversary of the date on which the monthly benefit began to accrue. The annual 2% increase is applied to all continuing benefits other than Defined Benefit Supplement annuities. However, if the member retires with a Reduced Benefit Election, the increase does not begin to accrue until the member reaches age 60 and is not payable until the member receives the full benefit. This increase is also known as the improvement factor.

CalPERS also provides retirement, disability, and death benefits. Retirement benefits are determined as 1.1% of final compensation for each year of credited service at age 50 for members under 2% at 55, or 1.0% at age 52 for members under 2% at 62, increasing to a maximum of 2.5 percent at age 63 for members under 2% at 55, or age 67 for members under 2% at 62. To be eligible for service retirement, members must be at least age 50 and have a minimum of five years of CalPERS-credited service. Members joining on or after January 1, 2013 must be at least age 52. Disability retirement has no minimum age requirement and the disability does not have to be job related. However, members must have a minimum of five years of CalPERS service credit.

Pre-retirement death benefits range from a simple return of member contributions plus interest to a monthly allowance equal to half of what the member would have received at retirement paid to a spouse or domestic partner. To be eligible for any type of monthly pre-retirement death benefit, a spouse or domestic partner must have been either married to the member or legally registered before the occurrence of the injury or the onset of the illness that resulted in death, or for at least one year prior to death. Cost-of-living adjustments are provided by law and are based on the Consumer Price Index for all United States cities. Cost-of-living adjustments are paid the second calendar year of the member's retirement on the May 1 check and then every year thereafter. The standard cost-of-living adjustment is a maximum of 2% per year.

Contributions

Active CalSTRS plan members under 2% at 60 were required to contribute 10.25% and plan members under 2% at 62 were required to contribute 9.205% of their salary in 2016-17. The required employer contribution rate for fiscal year 2016-17 was 12.58% of annual payroll. The contribution requirements of the plan members are established by State statute. Active CalPERS plan members are required to contribute 7.0% of their salary, and the District is required to contribute an actuarially determined rate. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The required employer contribution for fiscal year 2016-17 was 13.888%. The contribution requirements of the plan members are established by State statute.

For the fiscal year ended June 30, 2017, the contributions recognized as part of pension expense for each Plan were as follows:

	CalSTRS	CalPERS
Employer contributions	\$ 7,889,771	\$ 2,963,158
Employer contributions paid by State	\$ 4,855,808	\$ -
Employee contributions paid by employer	\$ -	\$ -

FULLERTON SCHOOL DISTRICT*Notes to Financial Statements**June 30, 2017***NOTE 11 – PENSION PLANS (continued)****B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions**

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

	Proportionate Share of Net Pension Liability
CalSTRS	\$ 97,057,200
CalPERS	33,041,853
Total Net Pension Liability	<u>\$ 130,099,053</u>

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

	<u>CalSTRS</u>	<u>CalPERS</u>
Proportion - June 30, 2015	0.1170%	0.1644%
Proportion - June 30, 2016	<u>0.1200%</u>	<u>0.1673%</u>
Change - Increase (Decrease)	<u>0.0030%</u>	<u>0.0029%</u>

For the year ended June 30, 2017, the District recognized pension expense of \$13,011,755. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 10,852,929	\$ -
Differences between actual and expected experience	1,421,117	(2,367,600)
Changes in assumptions	-	(992,710)
Adjustment due to differences in proportions	-	(3,938,938)
Net differences between projected and actual earnings on plan investments	<u>16,106,072</u>	<u>(3,263,039)</u>
	<u>\$ 28,380,118</u>	<u>\$ (10,562,287)</u>

FULLERTON SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 11 – PENSION PLANS (continued)

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

The total amount of \$10,852,929 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended		Amount
June 30,		
2017	\$	1,490,658
2018		1,277,432
2019		2,778,506
2020		68,292
2021		(21,356)
Thereafter		-

Actuarial Assumptions – The total pension liabilities in the June 30, 2015, actuarial valuations were determined using the following actuarial assumptions:

	CalSTRS	CalPERS
Valuation Date	June 30, 2015	June 30, 2015
Measurement Date	June 30, 2016	June 30, 2016
Actuarial Cost Method	Entry age normal	Entry age normal
Actuarial Assumptions:		
Discount Rate	7.60%	7.65%
Inflation	3.00%	2.75%
Wage Growth	3.75%	Varies
Post-retirement Benefit Increase	2.00%	2.00%
Investment Rate of Return	7.60%	7.65%

CalSTRS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are based on RP2000 series tables adjusted to fit CalSTRS experience. RP2000 series tables are an industry standard set of mortality rates published by the Society of Actuaries. See CalSTRS July 1, 2006 - June 30, 2010 Experience Analysis for more information. The underlying mortality assumptions and all other actuarial assumptions used in the CalPERS June 30, 2015, valuation were based on the results of an actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can be found on the CalPERS website.

Discount Rate – for CalSTRS

The discount rate used to measure the total pension liability was 7.60%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates in accordance with the rate increase per Assembly Bill 1469. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.60%) and assuming that contributions, benefit payments, and administrative expense occur midyear. Based on those assumptions, the STRP's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members.

FULLERTON SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 11 – PENSION PLANS (continued)

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

Discount Rate – for CalSTRS (continued)

Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Discount Rate – for CalPERS

The discount rate used to measure the total pension liability for PERF B was 7.65%. A projection of expected benefit payments and contributions was performed to determine if the assets would run out. The test revealed the assets would not run out. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for PERF B. The results of the crossover testing for the Plan are presented in a detailed report that can be obtained on CalPERS' website.

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

In determining the long-term expected rate of return, both short-term and long-term market return expectations as well as the expected pension fund cash flows were taken into account. Using historical returns of all of the funds' asset classes, expected compound (geometric) returns were calculated over the short term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The long-term expected real rates of return by asset class can be found in CalPERS' Comprehensive Annual Financial Report for the fiscal year ended June 30, 2016.

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

Asset Class	Target Allocation		Long-Term Expected Rate of Return	
	CalSTRS	CalPERS	CalSTRS	CalPERS
Global Equity	47%	51%	4.50%	5.71%
Global Debt Securities	N/A	19%	N/A	2.43%
Inflation Sensitive	5%	6%	3.20%	3.36%
Private Equity	12%	10%	6.20%	6.95%
Real Estate	15%	10%	4.35%	5.13%
Infrastructure and Forestland	N/A	2%	N/A	5.09%
Fixed Income	20%	N/A	0.20%	N/A
Liquidity	1%	2%	0.00%	-1.05%
	<u>100%</u>	<u>100%</u>		

FULLERTON SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 11 – PENSION PLANS (continued)

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

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

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

	CalSTRS	CalPERS
1% Decrease	6.60%	6.65%
Net Pension Liability	\$ 139,687,200	\$ 49,298,629
Current Discount Rate	7.60%	7.65%
Net Pension Liability	\$ 97,057,200	\$ 33,041,853
1% Increase	8.60%	8.65%
Net Pension Liability	\$ 61,651,200	\$ 19,504,888

Pension Plan Fiduciary Net Position

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

C. Payable to the Pension Plans

At June 30, 2017, the District reported a payable of \$0 and \$147,423 for the outstanding amount of contributions to the CalSTRS and CalPERS pension plans, respectively, required for the fiscal year ended June 30, 2017.

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS

Fullerton School District administers a single-employer defined benefit other postemployment benefit (OPEB) plan that provides medical, dental and vision insurance benefits to eligible retirees and their spouses. The District implemented Governmental Accounting Standards Board Statement #45, *Accounting and Financial Reporting by Employers for Postemployment Benefit Plans Other Than Pension Plans*, in 2008-09.

Membership in the plan consisted of the following:

Retirees and beneficiaries receiving benefits*	110
Active plan members*	1,070
Total	<u>1,180</u>

* According to the July 1, 2015, actuarial valuation

FULLERTON SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (continued)

Plan Descriptions and Contribution Information

The District has entered into an agreement with its retired employees that the District will provide health benefits as follows:

The medical plan options consist of a PPO and HMO offered by Blue Shield of California, and Kaiser Permanente HMO. Effective January 1, 2014, these coverages are offered through the Self-Insured Schools of California (SISC III). This valuation is based on the SISC rates and medical plan selections as of January, 2014, adjusted to the valuation date at the medical trend rate. As of July 1, 2013, Delta Dental and VSP vision insurance were provided through the Metropolitan Employees Benefits Association (MEBA). Effective January 1, 2014, the District contracted directly with Delta Dental for dental insurance, and vision insurance is provided through Kaiser for members with Kaiser medical coverage, and through Alameda County Schools Insurance Group (ACSIG) for all other members.

Certificated, Classified and Management employees may retire with District-paid health benefits after completing at least 10 years of District service and attainment of age 55. Certificated employees must have 10 years of full-time service with the District in order to be eligible. Classified employees may become eligible based on part-time service, with their District contributions pro-rated for full-time equivalency less than 100%. Management employees may have up to five years of management work in another district credited towards the 10 year requirement.

Certificated retirees receive a District contribution equal to the single-party medical premium and dental PPO premium. Spouses may be covered at the retiree's expense; however, if the retiree elects one of the HMO options, the District will contribute towards spousal coverage in an amount equal to the excess of the PPO premium over the single premium for the selected HMO.

Classified retirees receive a District contribution equal to the single-party medical and dental premiums and the two-party vision premium. Spouses may be covered and the District will contribute an amount equal on behalf of the spouse equal to the excess of the average of the HMO two-party premiums over the single premium for the coverage selected. District contributions are pro-rated for part-time service.

Management retirees receive a District contribution equal to the single-party medical, dental and vision premiums. Spouses may be covered and the District will contribute an amount on behalf of the spouse equal to the excess of the highest two-party HMO premium over the single premium for the coverage selected.

The District's contribution ends at age 65 in all cases, except that one retired Superintendent is receiving lifetime two-party supplemental coverage, and three Management retirees over age 65 are currently receiving a de minimis District contribution equal to the excess of the MEBA vision rate over the single COBRA rate. Retired Superintendents and Assistant Superintendents have slightly different provisions apply but in all cases except the four mentioned above, benefits end at age 65.

Funding Policy

The District's funding policy is based on the projected pay-as-you-go financing requirements, with additional amounts to prefund benefits as determined annually by the governing board. For fiscal year 2016-17, the District contributed \$1,350,318. This total includes \$474,057 to adjust for the implicit rate subsidy.

FULLERTON SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (continued)

Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost is calculated based on the Annual Required Contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation:

Annual required contribution (ARC)	\$ 3,220,685
Interest on net OPEB obligation	351,608
Adjustment to ARC	<u>(508,338)</u>
Annual OPEB cost	3,063,955
Contributions made:	
Implicit rate subsidy	(474,057)
Contributions for pay-as-you-go costs	<u>(876,261)</u>
Total contributions made	<u>(1,350,318)</u>
Increase in net OPEB obligation	1,713,637
Net OPEB obligation - July 1, 2016	8,790,190
Net OPEB obligation - June 30, 2017	<u>\$ 10,503,827</u>

Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2016-17 and the preceding two years are as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
2015	\$ 2,647,553	54%	\$ 7,137,015
2016	\$ 3,093,431	47%	\$ 8,790,190
2017	\$ 3,063,955	44%	\$ 10,503,827

Funded Status and Funding Progress – OPEB Plans

As of July 1, 2015, the most recent actuarial valuation date, the District did not have a funded plan. The actuarial accrued liability (AAL) for benefits was \$24.8 million and the unfunded actuarial accrued liability (UAAL) was \$24.8 million.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedules of funding progress present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

FULLERTON SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (continued)

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designated to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Additional information as of the latest actuarial valuation follows:

Valuation Date	July 1, 2015
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Open, Level Dollar Method
Remaining Amortization Period	30 years
Asset Valuation	N/A
Actuarial Assumptions:	
Discount rate	4.0%
Long-term healthcare cost trend rates:	
Medical	5.0-8.0%
Dental and Vision	4.0%

Required Supplementary Information

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FULLERTON SCHOOL DISTRICT
Budgetary Comparison Schedule – General Fund
For the Fiscal Year Ended June 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual *</u> <u>(Budgetary Basis)</u>	<u>Variance with</u> <u>Final Budget -</u> <u>Pos (Neg)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Local Control Funding Formula Sources	\$ 107,181,659	\$ 107,324,758	\$ 107,324,758	\$ -
Federal Sources	5,919,487	7,367,868	6,554,193	(813,675)
Other State Sources	9,849,447	14,484,392	14,469,180	(15,212)
Other Local Sources	8,250,143	9,889,263	10,182,754	293,491
Total Revenues	131,200,736	139,066,281	138,530,885	(535,396)
Expenditures				
Current:				
Certificated Salaries	62,954,381	63,317,520	63,201,668	115,852
Classified Salaries	20,679,432	21,598,768	20,952,562	646,206
Employee Benefits	28,615,925	33,472,660	32,694,871	777,789
Books and Supplies	9,689,933	13,251,700	7,660,783	5,590,917
Services and Other Operating Expenditures	8,374,571	9,578,985	8,404,829	1,174,156
Transfers of Indirect Cost	(449,155)	(477,972)	(435,828)	(42,144)
Capital Outlay	1,720,715	3,467,930	3,467,929	1
Intergovernmental	1,537,607	1,313,979	1,119,761	194,218
Debt Service:				
Interest	184,365	185,477	185,477	-
Principal	345,000	352,704	352,704	-
Total Expenditures	133,652,774	146,061,751	137,604,756	8,456,995
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	(2,452,038)	(6,995,470)	926,129	7,921,599
Fund Balance, July 1, 2016	27,559,478	27,147,653	37,713,251	10,565,598
Fund Balance, June 30, 2017	\$ 25,107,440	\$ 20,152,183	\$ 38,639,380	18,487,197

* 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 Deferred Maintenance Fund in accordance with the fund type definitions promulgated by GASB Statement No. 54.

FULLERTON SCHOOL DISTRICT
Budgetary Comparison Schedule – Cafeteria Fund
For the Fiscal Year Ended June 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>(Budgetary Basis)</u>	<u>Variance with</u> <u>Final Budget -</u> <u>Pos (Neg)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Federal Sources	\$ 4,567,616	\$ 4,567,616	\$ 4,208,846	\$ (358,770)
Other State Sources	256,113	256,113	231,109	(25,004)
Other Local Sources	1,288,588	1,313,230	1,186,387	(126,843)
Total Revenues	6,112,317	6,136,959	5,626,342	(510,617)
Expenditures				
Current:				
Classified Salaries	2,099,568	2,137,962	1,900,428	237,534
Employee Benefits	864,136	873,099	737,678	135,421
Food and Supplies	2,548,515	2,571,890	2,624,396	(52,506)
Services and Other Operating Expenditures	173,148	268,355	241,358	26,997
Transfers of Indirect Cost	257,552	265,518	235,969	29,549
Capital Outlay	321,500	326,500	111,327	215,173
Total Expenditures	6,264,419	6,443,324	5,851,156	592,168
Excess (Deficiency) of Revenues Over (Under) Expenditures	(152,102)	(306,365)	(224,814)	(1,102,785)
Fund Balance, July 1, 2016	2,024,629	2,439,364	2,439,364	-
Fund Balance, June 30, 2017	\$ 1,872,527	\$ 2,132,999	\$ 2,214,550	\$ (81,551)

FULLERTON SCHOOL DISTRICT
Schedule of Funding Progress
For the Fiscal Year Ended June 30, 2017

Actuarial Valuation Date	Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2011	\$ -	\$ 18,367,142	\$ 18,367,142	0.0%	\$ 63,252,787	29.0%
July 1, 2013	\$ -	\$ 22,214,849	\$ 22,214,849	0.0%	\$ 65,484,362	33.9%
July 1, 2015	\$ -	\$ 24,834,711	\$ 24,834,711	0.0%	\$ 75,703,775	32.8%

FULLERTON SCHOOL DISTRICT
Schedule of Proportionate Share of the Net Pension Liability
For the Fiscal Year Ended June 30, 2017

Last Ten Fiscal Years*

	<u>2016</u>	<u>2015</u>	<u>2014</u>
CalSTRS			
District's proportion of the net pension liability	0.1200%	0.1170%	0.1290%
District's proportionate share of the net pension liability	\$ 97,057,200	\$ 78,769,080	\$ 75,383,730
State's proportionate share of the net pension liability associated with the District	55,261,067	41,660,048	45,520,408
Totals	<u>\$ 152,318,267</u>	<u>\$ 120,429,128</u>	<u>\$ 120,904,138</u>
District's covered-employee payroll	<u>\$ 60,377,307</u>	<u>\$ 57,461,667</u>	<u>\$ 53,572,921</u>
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	<u>160.75%</u>	<u>137.08%</u>	<u>140.71%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>70%</u>	<u>74%</u>	<u>77%</u>
CalPERS			
District's proportion of the net pension liability	<u>0.1673%</u>	<u>0.1644%</u>	<u>0.1587%</u>
District's proportionate share of the net pension liability	<u>\$ 33,041,853</u>	<u>\$ 24,232,722</u>	<u>\$ 18,016,314</u>
District's covered-employee payroll	<u>\$ 19,938,997</u>	<u>\$ 18,132,291</u>	<u>\$ 17,467,785</u>
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	<u>165.71%</u>	<u>133.64%</u>	<u>103.14%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>74%</u>	<u>79%</u>	<u>83%</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.

FULLERTON SCHOOL DISTRICT
Schedule of Pension Contributions
For the Fiscal Year Ended June 30, 2017

Last Ten Fiscal Years*

	<u>2017</u>	<u>2016</u>	<u>2015</u>
CalSTRS			
Contractually required contribution	\$ 7,889,771	\$ 6,478,485	\$ 5,102,596
Contributions in relation to the contractually required contribution	<u>7,889,771</u>	<u>6,478,485</u>	<u>5,102,596</u>
Contribution deficiency (excess):	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	<u>62,716,781</u>	<u>\$ 60,377,307</u>	<u>\$ 57,461,667</u>
Contributions as a percentage of covered-employee payroll	<u>12.58%</u>	<u>10.73%</u>	<u>8.88%</u>
CalPERS			
Contractually required contribution	\$ 2,963,158	\$ 2,362,173	\$ 2,134,352
Contributions in relation to the contractually required contribution	<u>2,963,158</u>	<u>2,362,173</u>	<u>2,134,352</u>
Contribution deficiency (excess):	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	<u>\$ 21,336,103</u>	<u>\$ 19,938,997</u>	<u>\$ 18,132,291</u>
Contributions as a percentage of covered-employee payroll	<u>13.88%</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.

FULLERTON SCHOOL DISTRICT

Notes to the Required Supplementary Information For the Fiscal Year Ended June 30, 2017

NOTE 1 – PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

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

Schedule of Funding Progress

This schedule is required by GASB Statement No. 45 for all sole and agent employers that provide other postemployment benefits (OPEB). The schedule presents, for the most recent actuarial valuation and the two preceding valuations, information about the funding progress of the plan, including, for each valuation, the actuarial valuation date, the actuarial value of assets, the actuarial accrued liability, the total unfunded actuarial liability (or funding excess), the actuarial value of assets as a percentage of the actuarial accrued liability (funded ratio), the annual covered payroll, and the ratio of the total unfunded actuarial liability (or funding excess) to annual covered payroll.

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.

NOTE 2 – SUMMARY OF CHANGES OF BENEFITS OR ASSUMPTIONS

Benefit Changes

There were no changes to benefit terms that applied to all members of the Schools Pool.

Changes of Assumptions

There were no changes of assumptions.

FULLERTON SCHOOL DISTRICT

*Notes to the Required Supplementary Information
For the Fiscal Year Ended June 30, 2017*

NOTE 3 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS

At June 30, 2017, the District incurred the following excess of expenditures over appropriations in individual major funds presented in the Budgetary Comparison Schedule:

	<u>Excess of Expenditures</u>
General Fund:	
Transfers of Indirect Cost	\$ 42,144
Cafeteria Special Revenue Fund:	
Food and Supplies	52,506

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Supplementary Information

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FULLERTON SCHOOL DISTRICT

Local Educational Agency Organization Structure

June 30, 2017

The Fullerton School District was established in 1888. The District boundaries encompass approximately 26 square miles in Orange County. There were no changes in the boundaries of the District during the current year. The District is currently operating 15 elementary schools (K-6), two combined K-8 schools, and three junior high schools.

BOARD OF TRUSTEES		
Member	Office	Term Expires
Hilda Sugarman	President	November 30, 2020
Beverly Berryman	Vice-President	November 30, 2018
Janny Meyer	Clerk	November 30, 2018
Chris Thompson	Member	November 30, 2018
Jeanette Vazquez	Member	November 30, 2020

DISTRICT ADMINISTRATORS

Robert Pletka, Ed.D.,
Superintendent

Chad Hammitt, Ed.D.,
Assistant Superintendent, Personnel Services

Emy Flores, Ed.D.,
Assistant Superintendent, Educational Services

Susan Cross Hume, CPA, CIA, CGMA ¹
Assistant Superintendent, Business Services

Jay McPhail,
Assistant Superintendent, Innovation and Instructional Support

¹ Resigned effective June 30, 2017. The position is now held by Robert R. Coghlan, Ph.D.

FULLERTON SCHOOL DISTRICT
Schedule of Average Daily Attendance
For the Fiscal Year Ended June 30, 2017

	Second Period Report	Annual Report
	Certificate No. (68EDC9E0)	Certificate No. (37C680EC)
Regular & Extended Year ADA:		
Transitional Kindergarten through Third	5,617.56	5,613.40
Fourth through Sixth	4,454.67	4,449.15
Seventh through Eighth	2,959.21	2,949.68
	<hr/>	<hr/>
Total Regular & Extended Year ADA	13,031.44	13,012.23
	<hr/>	<hr/>
Special Education - Nonpublic, Nonsectarian Schools:		
Transitional Kindergarten through Third	3.33	3.58
Fourth through Sixth	2.76	3.09
Seventh through Eighth	0.55	0.70
	<hr/>	<hr/>
Total Special Education - Nonpublic, Nonsectarian Schools	6.64	7.37
	<hr/>	<hr/>
Total ADA	13,038.08	13,019.60
	<hr/> <hr/>	<hr/> <hr/>

FULLERTON SCHOOL DISTRICT
Schedule of Instructional Time
For the Fiscal Year Ended June 30, 2017

<u>Grade Level</u>	<u>Required Minutes</u>	<u>2016-17 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Status</u>
Kindergarten	36,000	37,310	180	Complied
Grade 1	50,400	52,090	180	Complied
Grade 2	50,400	52,090	180	Complied
Grade 3	50,400	52,760	180	Complied
Grade 4	54,000	54,926	180	Complied
Grade 5	54,000	54,926	180	Complied
Grade 6	54,000	54,926	180	Complied
Grade 7	54,000	62,141	180	Complied
Grade 8	54,000	62,141	180	Complied

FULLERTON SCHOOL DISTRICT
Schedule of Financial Trends and Analysis
For the Fiscal Year Ended June 30, 2017

General Fund	(Budget) 2018 ²	2017 ³	2016	2015
Revenues and other financing sources	\$ 127,989,020	\$ 138,530,885	\$ 138,542,603	\$ 116,763,721
Expenditures	131,351,322	137,604,756	128,436,548	115,268,594
Other uses and transfers out	-	-	4,120,512	107,793
Total outgo	<u>131,351,322</u>	<u>137,604,756</u>	<u>132,557,060</u>	<u>115,376,387</u>
Change in fund balance (deficit)	<u>(3,362,302)</u>	<u>926,129</u>	<u>5,985,543</u>	<u>1,387,334</u>
Ending fund balance	<u>\$ 35,277,078</u>	<u>\$ 38,639,380</u>	<u>\$ 37,713,251</u>	<u>\$ 31,727,708</u>
Available reserves ¹	<u>\$ 31,591,820</u>	<u>\$ 24,915,876</u>	<u>\$ 25,973,759</u>	<u>\$ 27,153,195</u>
Available reserves as a percentage of total outgo	<u>24.1%</u>	<u>18.1%</u>	<u>19.6%</u>	<u>23.5%</u>
Total long-term debt	<u>\$ 181,236,986</u>	<u>\$ 184,535,946</u>	<u>\$ 158,025,789</u>	<u>\$ 149,148,328</u>
Average daily attendance at P-2	<u>13,038</u>	<u>13,038</u>	<u>13,184</u>	<u>13,345</u>

The General Fund balance has increased by \$6.9 million over the past two years. The fiscal year 2017-18 adopted budget projects a decrease of \$3.4 million. For a district of this size, the state recommends available reserves of at least 3% of total general fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in each of the past three years, but anticipates an operating deficit for the 2017-18 fiscal year. The total long-term debt has increased by approximately \$35.4 million over the past two years because of increases to the net pension liability.

Average daily attendance has decreased by 307 over the past two years. The District anticipates no change in ADA for the 2017-18 fiscal year.

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

² Budget as of June, 2017.

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 Deferred Maintenance Fund in accordance with the fund type definitions promulgated by GASB Statement No. 54.

FULLERTON SCHOOL DISTRICT

*Reconciliation of Annual Financial and Budget Report with Audited Financial Statements
For the Fiscal Year Ended June 30, 2017*

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

FULLERTON SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

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	\$ 412,095	
National School Lunch Program	10.555	13523	2,721,271	
Summer Food Service Program	10.559	13004	25,564	
USDA Donated Foods	10.555	N/A	<u>356,968</u>	
Total Child Nutrition Cluster				\$ 3,515,898
Child and Adult Care Food Program	10.558	13394	645,933	
Cash in Lieu of Commodities	10.558	13389	<u>47,014</u>	
Total Child and Adult Care Food Program				<u>692,947</u>
Total U.S. Department of Agriculture				<u>4,208,845</u>
U.S. Department of Education:				
Passed through California Dept. of Education (CDE):				
No Child Left Behind (NCLB):				
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329		2,632,856
Title II, Part A, Supporting Effective Instruction	84.367	14341		511,203
Title II, Part B, CA Mathematics and Science Partnerships	84.366	14512		14,327
English Language Acquisition Grants Cluster:				
Title III, Limited English Proficiency	84.365	14346	293,019	
Title III, Immigrant Education Program	84.365	14334	<u>33,272</u>	
Subtotal English Language Acquisition Grants Cluster				326,291
Child Development: ARRA Quality Improvement Activities	84.412	15181		23,400
Individuals with Disabilities Education Act (IDEA):				
Special Education Cluster:				
Passed through North Orange County SELPA:				
Local Assistance Entitlement	84.027	13379	2,236,348	
Preschool Grants, Part B, Sec 619	84.173	13430	75,268	
Preschool Local Entitlement, Part B, Sec 611	84.027A	13682	<u>275,050</u>	
Total Special Education Cluster				<u>2,586,666</u>
Total U.S. Department of Education				<u>6,094,743</u>
U.S. Department of Health & Human Services:				
Passed through California Dept. of Education:				
Medicaid Cluster:				
Medi-Cal Billing Option	93.778	10013		<u>413,008</u>
Total U.S. Department of Health & Human Services				<u>413,008</u>
Total Expenditures of Federal Awards				<u>\$ 10,716,596</u>

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

FULLERTON SCHOOL DISTRICT

Note to the Supplementary Information

June 30, 2017

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, 2017.

	<u>CFDA Number</u>	<u>Amount</u>
Total Federal Revenues from the Statement of Revenues, Expenditures, and Changes in Fund Balances		\$ 10,786,439
Differences between Federal Revenues and Expenditures:		
Medi-Cal Billing Option	93.778	<u>(69,843)</u>
Total Schedule of Expenditures of Federal Awards		<u>\$ 10,716,596</u>

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Other Independent Auditors' Reports

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

Board of Trustees
Fullerton School District
Fullerton, 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 Fullerton School District as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Fullerton School District's basic financial statements, and have issued our report thereon dated November 29, 2017.

Internal Control Over Financial Reporting

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

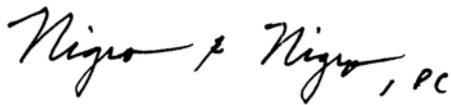
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Handwritten signature in black ink that reads "Nigro & Nigro, PC". The signature is written in a cursive, flowing style.

Murrieta, California
November 29, 2017



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Board of Trustees
Fullerton School District
Fullerton, California

Report on State Compliance

We have audited Fullerton School District's compliance with the types of compliance requirements described in the 2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting that could have a direct and material effect on each of the Fullerton School District's state government programs as noted on the following page for the fiscal year ended June 30, 2017.

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 Fullerton 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 2016-17 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 Fullerton 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 Fullerton School District's compliance.

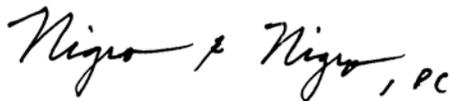
In connection with the audit referred to above, we selected and tested transactions and records to determine the District's compliance with the State laws and regulations applicable to the following items:

Table with 2 columns: Description, Procedures Performed. Rows include Attendance, Teacher Certification and Misassignments, Kindergarten Continuance, Independent Study, Continuation Education, Instructional Time, Instructional Materials, and Ratio of Administrative Employees to Teachers.

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
Mental Health Expenditures	Yes
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After 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
Immunizations	Yes
Charter Schools:	
Attendance	Not Applicable
Mode of Instruction	Not Applicable
Nonclassroom-Based Instruction/Independent Study	Not Applicable
Determination of Funding for Nonclassroom-Based Instruction	Not Applicable
Annual Instructional Minutes – Classroom Based	Not Applicable
Charter School Facility Grant Program	Not Applicable

Unmodified Opinion on Compliance with State Programs

In our opinion, Fullerton School District complied, in all material respects, with the types of compliance requirements referred to above for the year ended June 30, 2017.



Murrieta, California
November 29, 2017



**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
Fullerton School District
Fullerton, California

Report on Compliance for Each Major Federal Program

We have audited Fullerton 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 Fullerton School District's major federal programs for the year ended June 30, 2017. Fullerton 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 Fullerton 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 Fullerton 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 Fullerton School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Fullerton 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, 2017.

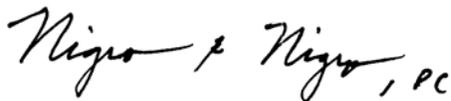
Report on Internal Control Over Compliance

Management of Fullerton 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 Fullerton 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 29, 2017

Findings and Questioned Costs

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FULLERTON SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2017

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' 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 auditors' report issued on compliance for major programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance, Section 200.516	<u>No</u>
Identification of major programs:	
<u>CFDA Numbers</u> <u>Name of Federal Program or Cluster</u>	
10.553, 10.555,	
<u>10.559</u> <u>Child Nutrition Cluster</u>	

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

State Awards

Type of auditors' report issued on compliance for state programs:	<u>Unmodified</u>
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FULLERTON SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2017

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 2016-17.

FULLERTON SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2017

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 2016-17.

FULLERTON SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2017

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

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

There were no state award findings or questioned costs in 2016-17.

FULLERTON SCHOOL DISTRICT

Summary Schedule of Prior Audit Findings

For the Fiscal Year Ended June 30, 2017

Original Finding No.	Finding	Code	Recommendation	Current Status
<p><i>Finding 2016-001: National School Lunch Program Cash Reserves</i></p>	<p>The school food authority (SFA) 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, 2016, the reserve balance in the Cafeteria Fund was \$2,439,634. Three months average expenditures are \$1,825,595. The excess cash reserves are \$613,769.</p>	<p>50000</p>	<p>We recommend the District submit a spending plan to the CDE.</p>	<p>Implemented. The District has a five year plan in place with the CDE.</p>
<p><i>Finding 2016-002: School Accountability Report Card</i></p>	<p>In conjunction with Education Code 33126, the school is to provide an accountability report card to include safety, cleanliness, and adequacy of school facilities, to include any needed maintenance to ensure good repair. The condition reported should be supported by the school's Facilities Inspection Tool (FIT) Forms, School Facilities Condition Evaluation as required by Education Code 17002. In addition, according to Education Code 35256, the governing board must publicize the School Accountability Report Card (SARC) for each school by February 1st of each year.</p> <p>The FIT forms for Maple Elementary School, Woodcrest Elementary School, and Nicolas Junior High School did not correspond to the School Accountability Report Card. On the FIT forms, the overall rating was "Good", but SARC reports overall rating as "Exemplary" for each school.</p>	<p>72000</p>	<p>The District should verify information on each FIT form to match it to the SARC before publication to ensure any errors have been corrected.</p>	<p>Implemented.</p>

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To the Board of Trustees
Fullerton School District
Fullerton, California

In planning and performing our audit of the basic financial statements of Fullerton School District for the fiscal year ending June 30, 2017, 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 29, 2017, on the financial statements of Fullerton School District.

ASSOCIATED STUDENT BODY (ASB) FUNDS

Observation: During our testing of cash disbursements, we noted disbursements that were either not approved by student, advisor, and a district representative or were not approved until after the expenditure was incurred. Education Code Section 48933(b) requires all expenditures from ASB funds be authorized by a student representative, an advisor, and a district representative (usually a principal or vice-principal) prior to disbursing the funds. Additionally, we noted disbursements that lacked evidence the goods had been received.

Recommendation: As a best practice, we recommend that the approvals be obtained prior to incurring the expense. Furthermore, all payments should be supported by evidence of receipt of goods by initialing an invoice, receipt, or packing slip or indicating “okay to pay.”

Observation: In our test of cash receipts, we noted deposits for which we could not verify an audit trail from point of collection to deposit in the bank. Sound internal controls for handling cash discourage theft of ASB funds and protect those who handle the cash. It is important to tie all proceeds to the specific fundraiser from which they were generated and to ensure that all proceeds from an event are turned in and properly accounted for.

Recommendation: We recommend that before any events are held, control procedures should be established that will allow for the reconciliation between money collected and sales.

Observation: During our testing of cash receipts, we noted receipts that were not deposited in a timely manner. Collected funds were dated up to three weeks prior to deposit.

Recommendation: We recommend that the site emphasize to the advisors and teachers that deposits should be made to the bookkeeper on a weekly basis or more often as needed. Money should never be left over the weekend or holidays because many thefts often occur during these times.

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

Nigro & Nigro, PC

Murrieta, California
November 29, 2017