

**TRACY UNIFIED  
SCHOOL DISTRICT**

**ANNUAL FINANCIAL REPORT  
JUNE 30, 2018**

**TRACY UNIFIED SCHOOL DISTRICT**  
**TABLE OF CONTENTS**  
**JUNE 30, 2018**

---

***FINANCIAL SECTION***

|  |    |
|--|----|
| Independent Auditor's Report   | 2  |
| Management's Discussion and Analysis   | 5  |
| Basic Financial Statements   |    |
| Government-Wide Financial Statements   |    |
| Statement of Net Position  | 14 |
| Statement of Activities  | 15 |
| Fund Financial Statements  |    |
| Governmental Funds - Balance Sheet   | 16 |
| Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position  | 18 |
| Governmental Funds - Statement of Revenues, Expenditures, and Changes in Fund Balance  | 20 |
| Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities | 22 |
| Fiduciary Fund - Statement of Net Position   | 24 |
| Notes to Financial Statements  | 25 |

***REQUIRED SUPPLEMENTARY INFORMATION***

|   |    |
|---|----|
| General Fund - Budgetary Comparison Schedule                                | 66 |
| Schedule of Changes in the District's Net OPEB Liability and Related Ratios | 67 |
| Schedule of District Contributions for OPEB                                 | 68 |
| Schedule of the District's Proportionate Share of the Net Pension Liability | 69 |
| Schedule of District Contributions for Pensions                             | 70 |
| Note to Required Supplementary Information                                  | 71 |

***SUPPLEMENTARY INFORMATION***

|  |    |
|--|----|
| Schedule of Expenditures of Federal Awards   | 74 |
| Local Education Agency Organization Structure  | 75 |
| Schedule of Average Daily Attendance   | 76 |
| Schedule of Instructional Time   | 77 |
| Reconciliation of Annual Financial and Budget Report with Audited Financial Statements | 78 |
| Schedule of Financial Trends and Analysis  | 79 |
| Schedule of Charter Schools  | 80 |
| Combining Statements - Non-Major Governmental Funds                                    |    |
| Combining Balance Sheet  | 81 |
| Combining Statement of Revenues, Expenditures and Changes in Fund Balance              | 83 |
| Note to Supplementary Information  | 85 |

***INDEPENDENT AUDITOR'S REPORTS***

|   |    |
|---|----|
| Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 88 |
| Report on Compliance for Each Major Program and Report on Internal Control over Compliance Required by the Uniform Guidance   | 90 |
| Report on State Compliance  | 92 |

***SCHEDULE OF FINDINGS AND QUESTIONED COSTS***

|  |     |
|--|-----|
| Summary of Auditor's Results                 | 96  |
| Financial Statement Findings                 | 97  |
| Federal Awards Findings and Questioned Costs | 99  |
| State Awards Findings and Questioned Costs   | 100 |
| Summary Schedule of Prior Audit Findings     | 102 |

---

---

***FINANCIAL SECTION***

---

---



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

VALUE THE *difference*

## INDEPENDENT AUDITOR'S REPORT

Governing Board  
Tracy Unified School District  
Tracy, California

### **Report on the Financial Statements**

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

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

## ***Opinions***

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

## ***Emphasis of Matter - Change in Accounting Principles***

As discussed in Note 1 and Note 16 to the financial statements, in 2018, the District adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

## ***Other Matters***

### *Required Supplementary Information*

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

### *Other Information*

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

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2018, on our consideration of the Tracy Unified School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Tracy Unified School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Tracy Unified School District's internal control over financial reporting and compliance.

*Vavinek, Trine, Day & Co LLP*

Pleasanton, California  
December 17, 2018

# TRACY UNIFIED SCHOOL DISTRICT

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

---

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

### OVERVIEW OF THE FINANCIAL STATEMENTS

#### The Financial Statements

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

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

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

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

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

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

The Primary unit of the government is Tracy Unified School District.

### REPORTING THE DISTRICT AS A WHOLE

#### The Statement of Net Position and the Statement of Activities

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

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

# TRACY UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

---

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

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

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

### REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

#### Fund Financial Statements

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

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

### THE DISTRICT AS A TRUSTEE

#### Reporting the District's Fiduciary Responsibilities

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

# TRACY UNIFIED SCHOOL DISTRICT

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

---

### THE DISTRICT AS A WHOLE

#### Net Position

The District's net position was \$204.3 million for the fiscal year ended June 30, 2018. Of this amount, (\$63.8) million was unrestricted. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the governing board's ability to use net position for day-to-day operations. Our analysis below, in summary form, focuses on the net position (Table 1) and change in net position (Table 2) of the District's governmental activities.

**Table 1**

| (Amounts in millions)            | Governmental Activities |                 |
|----------------------------------|-------------------------|-----------------|
|                                  | 2018                    | 2017            |
| Current and other assets         | \$ 143.9                | \$ 133.2        |
| Capital assets                   | 355.2                   | 324.8           |
| <b>Total Assets</b>              | <b>499.1</b>            | <b>458.0</b>    |
| Deferred outflows of resources   | <b>52.9</b>             | <b>30.2</b>     |
| Current liabilities              | 15.6                    | 10.6            |
| Long-term liabilities            | 318.2                   | 260.3           |
| <b>Total Liabilities</b>         | <b>333.8</b>            | <b>270.9</b>    |
| Deferred inflows of resources    | <b>13.9</b>             | <b>16.9</b>     |
| Net position                     |                         |                 |
| Net investment in capital assets | 212.6                   | 207.7           |
| Restricted                       | 55.5                    | 51.7            |
| Unrestricted                     | (63.8)                  | (59.0)          |
| <b>Total Net Position</b>        | <b>\$ 204.3</b>         | <b>\$ 200.4</b> |

The (\$63.8) million in unrestricted net position of governmental activities represents the accumulated results of all past years' operations. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – decreased by \$4.8 million.

# TRACY UNIFIED SCHOOL DISTRICT

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

---

### Changes in Net Position

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

**Table 2**

| (Amounts in millions)              | <b>Governmental Activities</b> |               |
|------------------------------------|--------------------------------|---------------|
|                                    | <b>2018</b>                    | <b>2017</b>   |
| <b>Revenues</b>                    |                                |               |
| Program revenues:                  |                                |               |
| Charges for services               | \$ 11.4                        | \$ 4.8        |
| Operating grants and contributions | 23.4                           | 21.8          |
| Capital grants and contributions   | 0.1                            | -             |
| General revenues:                  |                                |               |
| Federal and State aid              | 101.9                          | 102.1         |
| Property taxes                     | 41.2                           | 42.8          |
| Other general revenues             | 6.4                            | 4.8           |
| <b>Total Revenues</b>              | <b>184.4</b>                   | <b>176.3</b>  |
| <b>Expenses</b>                    |                                |               |
| Instruction                        | 101.7                          | 103.2         |
| Instruction-related                | 22.7                           | 21.9          |
| Student support services           | 16.8                           | 16.9          |
| Administration                     | 6.9                            | 7.1           |
| Maintenance and operations         | 17.2                           | 16.4          |
| Other                              | 9.1                            | 9.0           |
| <b>Total Expenses</b>              | <b>174.4</b>                   | <b>174.5</b>  |
| <b>Change in Net Position</b>      | <b>\$ 10.0</b>                 | <b>\$ 1.8</b> |

### Governmental Activities

As reported in the *Statement of Activities*, the cost of all of our governmental activities this year was \$174.4 million. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$41.2 million because the cost was paid by those who benefited from the programs (\$11.4 million) or by other governments and organizations who subsidized certain programs with grants and contributions (\$23.4 million). We paid for the remaining "public benefit" portion of our governmental activities with \$101.9 million in Federal and State funds, and with \$6.4 million of other revenues, like interest and general entitlements.

**TRACY UNIFIED SCHOOL DISTRICT**

**MANAGEMENT’S DISCUSSION AND ANALYSIS**

**JUNE 30, 2018**

In Table 3, we have presented the cost and net cost of each of the District's largest functions: regular program instruction, instruction related activities, pupil services, administration, plant services and construction, ancillary and community services and other services. As discussed above, net cost shows the financial burden that was placed on the District's taxpayers by each of these functions. Providing this information allows our citizens to consider the cost of each function in comparison to the benefits they believe are provided by that function.

**Table 3**

| (Amounts in millions)            | <b>Total Cost of Services</b> |                 | <b>Net Cost of Services</b> |                 |
|----------------------------------|-------------------------------|-----------------|-----------------------------|-----------------|
|                                  | <b>2018</b>                   | <b>2017</b>     | <b>2018</b>                 | <b>2017</b>     |
| Instruction                      | \$ 101.7                      | \$ 103.2        | \$ 89.0                     | \$ 91.0         |
| Instruction related activities   | 22.7                          | 21.9            | 20.2                        | 20.1            |
| Student support services         | 16.8                          | 16.9            | 10.4                        | 10.8            |
| Administration                   | 6.9                           | 7.1             | 6.0                         | 6.6             |
| Plant services                   | 17.2                          | 16.4            | 17.1                        | 16.3            |
| Ancillary and community services | 1.4                           | 1.6             | 1.4                         | 1.5             |
| Other                            | 7.7                           | 7.4             | (4.6)                       | 1.7             |
| <b>Totals</b>                    | <b>\$ 174.4</b>               | <b>\$ 174.5</b> | <b>\$ 139.5</b>             | <b>\$ 148.0</b> |

**THE DISTRICT'S FUNDS**

As the District completed this year, our governmental funds reported a combined fund balance of \$130.5 million, which is an increase of \$5.8 million from last year (Table 4).

**Table 4**

| (Amounts in millions)              | <b>Fund Balance</b> |                 |
|------------------------------------|---------------------|-----------------|
|                                    | <b>2018</b>         | <b>2017</b>     |
| General                            | \$ 51.6             | \$ 52.4         |
| Cafeteria                          | 2.2                 | 2.4             |
| Building                           | 20.9                | 23.6            |
| County School Facilities           | 12.7                | 11.3            |
| Capital Facilities                 | 32.2                | 22.1            |
| Special Reserve-Capital Outlay     | 0.6                 | 0.6             |
| TSFFA Bond Interest and Redemption | 2.7                 | 2.9             |
| Bond Interest and Redemption       | 7.6                 | 9.4             |
| <b>Totals</b>                      | <b>\$ 130.5</b>     | <b>\$ 124.7</b> |

# TRACY UNIFIED SCHOOL DISTRICT

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

---

The primary reasons for these increases/decreases are:

- The General Fund is the District's principal operating fund. The fund balance of the General Fund decreased \$0.8 million due to a decrease in one time mandated cost reimbursements and in increase in other one time expenditures.
- The Building Fund balance decreased \$2.6 million primarily due to transfers to other facilities funds.
- The County School Facilities Fund increased \$1.5 million due to transfers from the Building Fund.
- The Capital Facilities Fund increased \$10.1 million due revenue collected.

### General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final amendment to the budget was adopted on June 26, 2017. (A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in our annual report on page 66).

### CAPITAL ASSET AND DEBT ADMINISTRATION

#### Capital Assets

At June 30, 2018, the District had \$355.2 million in a broad range of capital assets (net of depreciation), including land, construction in progress, buildings, furniture, and equipment. This amount represents a net increase (including additions, deductions, and depreciation) of \$30.4 million or 9 percent, from last year (Table 5).

**Table 5**

(Amounts in millions)

|                                   | <b>Capital Assets</b> |                 |
|-----------------------------------|-----------------------|-----------------|
|                                   | <b>2018</b>           | <b>2017</b>     |
| Land and construction in progress | \$ 67.3               | \$ 36.2         |
| Buildings and improvements        | 420.6                 | 412.3           |
| Equipment                         | 19.0                  | 17.9            |
| Subtotal                          | 506.9                 | 466.4           |
| Accumulated Depreciation          | (151.7)               | (141.6)         |
| <b>Net Capital Assets</b>         | <b>\$ 355.2</b>       | <b>\$ 324.8</b> |

This year's additions of \$34.9 million included work on Central Elementary School, Clover site renovation, several deferred maintenance projects, technology equipment and a vehicle.

As discussed in the Note 13 of the Financial Statements, the District has construction commitments in the amount of \$27.5 million expected to be completed during the fiscal year 2018 and beyond.

We present more detailed information about our capital assets in Note 5 to the financial statements.

# TRACY UNIFIED SCHOOL DISTRICT

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

---

### Long-Term Obligations

At the end of this year, the District had \$132.8 million in bonds outstanding versus \$108.0 million last year, increase of 22 percent. The long-term obligations consisted of:

**Table 6**

| (Amounts in millions)                                      | <b><u>Long Term Obligations</u></b> |                                     |
|--|-------------------------------------|-------------------------------------|
|  | <b><u>2018</u></b>                  | <b><u>2017,<br/>as restated</u></b> |
| General obligation bonds<br>(financed with property taxes) | \$ 132.8                            | \$ 108.0                            |
| Bond premium, net  | 8.1                                 | 7.4                                 |
| Capital leases   | 0.1                                 | 0.1                                 |
| Net other post employment benefit (OPEB) liability         | 19.1                                | 17.4                                |
| Net pension liability                                      | 158.0                               | 133.5                               |
| <b>Totals</b>  | <b><u>\$ 318.1</u></b>              | <b><u>\$ 266.4</u></b>              |

The Tracy School Facilities Financing Authority (TSFFA) is a component unit of the Tracy Unified School District and was organized to facilitate funding of general obligation bonds. See Note 15 for more information about the TSFFA. Individually prepared financial statements for the TSFFA may be obtained through the business office of the District.

Other long-term obligations include compensated absences payable and capital leases. We present more detailed information regarding our long-term obligations in Note 9 of the financial statements.

# TRACY UNIFIED SCHOOL DISTRICT

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

---

### SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2017-2018 ARE NOTED BELOW:

- Implemented successful Summer Bridge program.
- Significant progress on the renovation of Central School and Clover site.
- Initiated solar parking lot projects at District Office, West High School, Kimball High School, and Williams Middle School.
- Began planning of North Elementary School.
- Remodel West High School Phase III.
- Received Federal STEM grant.
- Settled contract with TEA (Tracy Educators Association).
- Online registration available district wide.
- Continue successful Summer Bridge program.
- Began construction of Central Elementary School.
- Continue to communication and work effectively with Tracy Learning Center in the planning/modernization of their site, the Clover campus.
- The PSAT test was administered district-wide in grades 8 and 10.
- We continued in the NGSS Early Implementation Grant where teachers are learning and implementing NGSS.
- Continued offering AVID program for grades 7-12.
- Continued to train, staff, and collect resources to support anti-bullying and tolerance efforts.

# TRACY UNIFIED SCHOOL DISTRICT

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

---

### ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In considering the District Budget for the 2018-2019 year, the governing board and management used the following criteria:

The key assumptions in our revenue forecast are:

Examples:

1. Local Control Funding Formula.
2. Developer fee collections are based on approximate new housing units to be constructed.
3. One time state mandated costs revenue projected at \$2.6 million.

Expenditures are based on the following forecasts:

|                                   | <u>Staffing Ratio</u> | <u>Enrollment</u> |
|-----------------------------------|-----------------------|-------------------|
| Grades kindergarten through third | 21:1                  | 3,690.75          |
| Grades four through eight         | 24:1                  | 5,078.72          |
| Grades nine through twelve        | 24.5:1                | 5,630.21          |

### CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact the Associate Superintendent, Business Services, at Tracy Unified School District, 1875 West Lowell Avenue, Tracy, California, 95376, or e-mail at [cgoodall@tusd.net](mailto:cgoodall@tusd.net).

# TRACY UNIFIED SCHOOL DISTRICT

## STATEMENT OF NET POSITION JUNE 30, 2018

|  | <b>Governmental<br/>Activities</b> |
|--|------------------------------------|
| <b>ASSETS</b>  |                                    |
| Deposits and investments   | \$ 137,939,853                     |
| Receivables  | 5,367,672                          |
| Prepaid expenses   | 309,870                            |
| Stores inventories   | 242,781                            |
| Capital assets not depreciated   | 67,334,944                         |
| Capital assets, net of accumulated depreciation  | <u>287,908,253</u>                 |
| <b>Total Assets</b>  | <u><u>499,103,373</u></u>          |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>  |                                    |
| Deferred outflows of resources related to net other postemployment benefits (OPEB) liability | 674,498                            |
| Deferred outflows of resources related to pensions   | <u>52,219,676</u>                  |
| <b>Total Deferred Outflows of Resources</b>  | <u><u>52,894,174</u></u>           |
| <b>LIABILITIES</b>   |                                    |
| Accounts payable   | 13,096,863                         |
| Interest payable   | 2,276,453                          |
| Unearned revenue   | 273,936                            |
| Long-term obligations:   |                                    |
| Current portion of long-term obligations other than pensions                                 | 3,293,730                          |
| Noncurrent portion of long-term obligations other than pensions                              | <u>156,910,810</u>                 |
| <b>Total Long-Term Obligations</b>   | 160,204,540                        |
| Aggregate net pension liability  | <u>157,967,024</u>                 |
| <b>Total Liabilities</b>   | <u><u>333,818,816</u></u>          |
| <b>DEFERRED INFLOWS OF RESOURCES</b>   |                                    |
| Deferred inflows of resources related to pensions  | 12,299,329                         |
| Deferred inflows of resources related to debt refunding                                      | <u>1,561,234</u>                   |
| <b>Total Deferred Inflows of Resources</b>   | <u><u>13,860,563</u></u>           |
| <b>NET POSITION</b>  |                                    |
| Net investment in capital assets   | 212,631,084                        |
| Restricted for:  |                                    |
| Debt service   | 7,972,571                          |
| Capital projects   | 39,622,588                         |
| Educational programs   | 3,048,567                          |
| Other activities   | 4,843,426                          |
| Unrestricted   | <u>(63,800,068)</u>                |
| <b>Total Net Position</b>  | <u><u>\$ 204,318,168</u></u>       |

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

**TRACY UNIFIED SCHOOL DISTRICT**

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

| <u>Functions/Programs</u>                    | <u>Expenses</u>       | <u>Program Revenues</u>                       |   |   | <u>Net (Expenses)<br/>Revenues and<br/>Changes in<br/>Net Position</u> |
|--|-----------------------|---|---|---|--|
|  |                       | <u>Charges for<br/>Services and<br/>Sales</u> | <u>Operating<br/>Grants and<br/>Contributions</u> | <u>Capital<br/>Grants and<br/>Contributions</u> |  |
| <b>Governmental Activities:</b>              |                       |   |   |   |  |
| Instruction                                  | \$ 101,640,378        | \$ 74,613                                     | \$ 12,487,771                                     | \$ 92,065                                       | \$ (88,985,929)  |
| Instruction-related activities:              |                       |   |   |   |  |
| Supervision of instruction                   | 6,247,264             | 74,944  | 1,692,556   | -   | (4,479,764)  |
| Instructional library, media, and technology | 5,224,562             | 6,618   | 96,022  | -   | (5,121,922)  |
| School site administration                   | 11,295,227            | 12,978  | 758,136   | -   | (10,524,113)   |
| Pupil services:                              |                       |   |   |   |  |
| Home-to-school transportation                | 4,552,774             | 14,090  | 45,882  | -   | (4,492,802)  |
| Food services                                | 5,469,923             | 1,108,404                                     | 4,120,557   | -   | (240,962)  |
| All other pupil services                     | 6,836,785             | -   | 1,116,288   | -   | (5,720,497)  |
| General administration:                      |                       |   |   |   |  |
| All other general administration             | 6,816,501             | 59,893  | 696,453   | -   | (6,060,155)  |
| Plant services                               | 17,274,379            | 36,075  | 141,620   | -   | (17,096,684)   |
| Ancillary services                           | 1,243,707             | -   | 40,079  | -   | (1,203,628)  |
| Community services                           | 155,251               | -   | -   | -   | (155,251)  |
| Interest on long-term debt                   | 5,189,677             | -   | -   | -   | (5,189,677)  |
| Other outgo                                  | 2,509,719             | 10,051,719                                    | 2,168,240   | -   | 9,710,240  |
| <b>Total Governmental-Type Activities</b>    | <b>\$ 174,456,147</b> | <b>\$ 11,439,334</b>                          | <b>\$ 23,363,604</b>                              | <b>\$ 92,065</b>                                | <b>\$ (139,561,144)</b>  |
| General revenues and subventions:            |                       |   |   |   |  |
|  |                       |   |   |   | 33,843,098   |
|  |                       |   |   |   | 6,650,961  |
|  |                       |   |   |   | 678,369  |
|  |                       |   |   |   | 101,918,506  |
|  |                       |   |   |   | 700,325  |
|  |                       |   |   |   | 5,783,132  |
|  |                       |   | <b>Subtotal, General Revenues</b>                 |   | <b>149,574,391</b>   |
|  |                       |   | <b>Change in Net Position</b>                     |   | <b>10,013,247</b>  |
|  |                       |   | Net Position - Beginning, as restated             |   | 194,304,921  |
|  |                       |   | Net Position - Ending                             |   | <b>\$ 204,318,168</b>  |

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

**TRACY UNIFIED SCHOOL DISTRICT**

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

|  | <b>General<br/>Fund</b> | <b>Building<br/>Fund</b> | <b>Capital<br/>Facilities<br/>Fund</b> |
|--|-------------------------|--------------------------|--|
| <b>ASSETS</b>                                  |                         |                          |  |
| Deposits and investments                       | \$ 54,026,256           | \$ 26,173,790            | \$ 32,244,207                          |
| Receivables                                    | 4,863,304               | 107,447                  | 208,290                                |
| Due from other funds                           | 343,531                 | -                        | -                                      |
| Prepaid expenses                               | 309,870                 | -                        | -                                      |
| Stores inventories                             | 147,332                 | -                        | -                                      |
| <b>Total Assets</b>                            | <b>\$ 59,690,293</b>    | <b>\$ 26,281,237</b>     | <b>\$ 32,452,497</b>                   |
| <b>LIABILITIES AND FUND BALANCES</b>           |                         |                          |  |
| <b>Liabilities:</b>                            |                         |                          |  |
| Accounts payable                               | \$ 7,814,016            | \$ -                     | \$ 264,240                             |
| Due to other funds                             | 1,095                   | 5,397,072                | -                                      |
| Unearned revenue                               | 263,382                 | -                        | -                                      |
| <b>Total Liabilities</b>                       | <b>8,078,493</b>        | <b>5,397,072</b>         | <b>264,240</b>                         |
| <b>Fund Balances:</b>                          |                         |                          |  |
| Nonspendable                                   | 472,201                 | -                        | -                                      |
| Restricted                                     | 3,048,567               | 20,884,165               | 32,188,257                             |
| Assigned                                       | 43,385,732              | -                        | -                                      |
| Unassigned                                     | 4,705,300               | -                        | -                                      |
| <b>Total Fund Balance</b>                      | <b>51,611,800</b>       | <b>20,884,165</b>        | <b>32,188,257</b>                      |
| <b>Total Liabilities and<br/>Fund Balances</b> | <b>\$ 59,690,293</b>    | <b>\$ 26,281,237</b>     | <b>\$ 32,452,497</b>                   |

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

**TRACY UNIFIED SCHOOL DISTRICT**

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

---

| <b>County School<br/>Facilities<br/>Fund</b> | <b>Non Major<br/>Governmental<br/>Funds</b> | <b>Total<br/>Governmental<br/>Funds</b> |
|--|---|---|
| \$ 13,556,835                                | \$ 11,938,765                               | \$ 137,939,853                          |
| 26,192                                       | 162,439                                     | 5,367,672                               |
| 4,064,641                                    | 1,325,512                                   | 5,733,684                               |
| -  | -   | 309,870                                 |
| -  | 95,449                                      | 242,781                                 |
| <u>\$ 17,647,668</u>                         | <u>\$ 13,522,165</u>                        | <u>\$ 149,593,860</u>                   |
| <br>   |   |   |
| \$ 4,921,194                                 | \$ 97,413                                   | \$ 13,096,863                           |
| 2,517  | 333,000                                     | 5,733,684                               |
| -  | 10,554                                      | 273,936                                 |
| <u>4,923,711</u>                             | <u>440,967</u>                              | <u>19,104,483</u>                       |
| <br>   |   |   |
| -  | 95,448                                      | 567,649                                 |
| 12,723,957                                   | 10,249,023                                  | 79,093,969                              |
| -  | 2,736,727                                   | 46,122,817                              |
| -  | -   | 4,704,942                               |
| <u>12,723,957</u>                            | <u>13,081,198</u>                           | <u>130,489,377</u>                      |
| <br>   |   |   |
| <u>\$ 17,647,668</u>                         | <u>\$ 13,522,165</u>                        | <u>\$ 149,593,860</u>                   |

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

**TRACY UNIFIED SCHOOL DISTRICT**

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

---

**Total Fund Balance - Governmental Funds** **\$130,489,377**  
**Amounts Reported for Governmental Activities in the Statement  
of Net**

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

|                               |                      |             |
|-------------------------------|----------------------|-------------|
| The cost of capital assets is | \$ 506,917,280       |             |
| Accumulated depreciation is   | <u>(151,674,083)</u> |             |
| Net Capital Assets            |                      | 355,243,197 |

In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. On the government-wide financial statements, unmatured interest on long-term obligations is recognized when it is incurred. (2,276,453)

Deferred charges on refunding (the difference between the reacquisition price and net carrying amount of refunded debt) are capitalized and amortized over the remaining life of the new or old debt (whichever is greater) and are included with government (1,561,234)

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

|   |                   |            |
|---|-------------------|------------|
| Pension contributions subsequent to measurement date  | \$ 18,698,665     |            |
| Net change in proportionate share of net pension liability  | 2,521,755         |            |
| Differences between projected and actual earnings on pension plan investments                         | 1,445,112         |            |
| Differences between expected and actual experience in the measurement of the total pension liability. | 1,926,299         |            |
| Changes of assumptions  | <u>27,627,845</u> |            |
| Total Deferred Outflows of Resources Related to Pensions  |                   | 52,219,676 |

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

**TRACY UNIFIED SCHOOL DISTRICT**

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

---

|   |                     |                                    |
|---|---------------------|------------------------------------|
| Deferred inflows of resources related to pensions represent an acquisition of net position that applies to a future period and is not reported in the District's funds. Deferred inflows of resources related to pensions at year-end consist of:                               | \$ (6,311,521)      |                                    |
| Net change in proportionate share of net pension liability  | (374,851)           |                                    |
| Differences between projected and actual earnings on pension plan investments   | (3,094,530)         |                                    |
| Differences between expected and actual experience in the measurement of the total pension liability.   | (2,026,584)         |                                    |
| Changes of assumptions  | <u>(491,843)</u>    |                                    |
| Total Deferred Inflows of Resources Related to Pensions   |                     | (12,299,329)                       |
| Deferred outflows of resources related to OPEB represent a consumption of net position in a future period and is not reported in the District's funds. Deferred outflows of resources related to OPEB at year-end consist of OPEB contributions subsequent to measurement date. |                     | 674,498                            |
| Net pension liability is not due and payable in the current period, and is not reported as a liability in the funds.  |                     | (157,967,024)                      |
| Long-term obligations at year-end consist of:   |                     |                                    |
| Bonds payable   | \$ (132,823,290)    |                                    |
| Bond premium, net of amortization   | (8,116,154)         |                                    |
| Capital leases payable  | (111,435)           |                                    |
| Compensated absences (vacations)  | (603)               |                                    |
| Net other postemployment benefits (OPEB) liability  | <u>(19,153,058)</u> |                                    |
| Total Long-Term Obligations   |                     | (160,204,540)                      |
| <b>Total Net Position - Governmental Activities</b>   |                     | <b><u><u>\$204,318,168</u></u></b> |

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

**TRACY UNIFIED SCHOOL DISTRICT**

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

|  | <b>General<br/>Fund</b> | <b>Building<br/>Fund</b> | <b>Capital<br/>Facilities<br/>Fund</b> |
|--|-------------------------|--------------------------|--|
| <b>REVENUES</b>  |                         |                          |  |
| Local Control Funding Formula                                | \$ 130,020,847          | \$ -                     | \$ -                                   |
| Federal sources  | 7,322,169               | -                        | -                                      |
| Other state sources  | 13,502,652              | -                        | -                                      |
| Other local sources  | 9,135,381               | 994,050                  | 10,044,869                             |
| <b>Total Revenues</b>  | <u>159,981,049</u>      | <u>994,050</u>           | <u>10,044,869</u>                      |
| <b>EXPENDITURES</b>  |                         |                          |  |
| Current  |                         |                          |  |
| Instruction  | 92,411,202              | -                        | -                                      |
| Instruction-related activities:                              |                         |                          |  |
| Supervision of instruction                                   | 6,205,905               | -                        | -                                      |
| Instructional library, media and technology                  | 5,853,766               | -                        | -                                      |
| School site administration                                   | 11,244,500              | -                        | -                                      |
| Pupil services:  |                         |                          |  |
| Home-to-school transportation                                | 4,262,128               | -                        | -                                      |
| Food services  | -                       | -                        | -                                      |
| All other pupil services                                     | 6,810,567               | -                        | -                                      |
| General administration:                                      |                         |                          |  |
| All other general administration                             | 6,252,735               | -                        | -                                      |
| Plant services   | 16,751,538              | -                        | 16,831                                 |
| Ancillary services   | 1,238,937               | -                        | -                                      |
| Community services   | 154,656                 | -                        | -                                      |
| Other outgo  | 2,509,719               | -                        | -                                      |
| Facility acquisition and construction                        | 7,104,308               | -                        | -                                      |
| Debt service   |                         |                          |  |
| Principal  | 43,484                  | -                        | -                                      |
| Interest and other   | -                       | -                        | -                                      |
| <b>Total Expenditures</b>                                    | <u>160,843,445</u>      | <u>-</u>                 | <u>16,831</u>                          |
| <b>Excess (Deficiency) of<br/>Revenues Over Expenditures</b> | <u>(862,396)</u>        | <u>994,050</u>           | <u>10,028,038</u>                      |
| <b>Other Financing Sources (Uses):</b>                       |                         |                          |  |
| Transfers in   | 16,865                  | -                        | -                                      |
| Other sources  | -                       | 29,840,000               | -                                      |
| Transfers out  | -                       | (33,461,689)             | -                                      |
| <b>Net Financing Sources (Uses)</b>                          | <u>16,865</u>           | <u>(3,621,689)</u>       | <u>-</u>                               |
| <b>NET CHANGE IN FUND BALANCES</b>                           | <u>(845,531)</u>        | <u>(2,627,639)</u>       | <u>10,028,038</u>                      |
| <b>Fund Balance - Beginning</b>                              | <u>52,457,331</u>       | <u>23,511,804</u>        | <u>22,160,219</u>                      |
| <b>Fund Balance - Ending</b>                                 | <u>\$ 51,611,800</u>    | <u>\$ 20,884,165</u>     | <u>\$ 32,188,257</u>                   |

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

| <b>County School<br/>Facilities<br/>Fund</b> | <b>Non Major<br/>Governmental<br/>Funds</b> | <b>Total<br/>Governmental<br/>Funds</b> |
|--|---|---|
| \$ -   | \$ -  | \$ 130,020,847                          |
| -  | 4,925,193                                   | 12,247,362                              |
| -  | 513,501                                     | 14,016,153                              |
| 92,066                                       | 7,918,666                                   | 28,185,032                              |
| 92,066                                       | 13,357,360                                  | 184,469,394                             |
| -  | 133,599                                     | 92,544,801                              |
| -  | 17,402                                      | 6,223,307                               |
| -  | -   | 5,853,766                               |
| -  | 7,411                                       | 11,251,911                              |
| -  | -   | 4,262,128                               |
| -  | 5,395,531                                   | 5,395,531                               |
| -  | -   | 6,810,567                               |
| -  | 271,210                                     | 6,523,945                               |
| 3,475  | 147,055                                     | 16,918,899                              |
| -  | -   | 1,238,937                               |
| -  | -   | 154,656                                 |
| -  | -   | 2,509,719                               |
| 32,203,767                                   | 35,158,806                                  | 42,263,114                              |
| -  | 5,832,000                                   | 5,875,484                               |
| -  | 4,997,549                                   | 4,997,549                               |
| 32,207,242                                   | 16,828,253                                  | 209,895,771                             |
| (32,115,176)                                 | (3,470,893)                                 | (25,426,377)                            |
| 33,444,824                                   | -   | 33,461,689                              |
| -  | 1,324,417                                   | 31,164,417                              |
| -  | -   | (33,461,689)                            |
| 33,444,824                                   | 1,324,417                                   | 31,164,417                              |
| 1,329,648                                    | (2,146,476)                                 | 5,738,040                               |
| 11,394,309                                   | 15,227,674                                  | 124,751,337                             |
| \$ 12,723,957                                | \$ 13,081,198                               | \$ 130,489,377                          |

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

**TRACY UNIFIED SCHOOL DISTRICT**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE TO THE SCHEDULE OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2018**

---

**Total Net Change in Fund Balance - Governmental Funds** **\$ 5,738,040**  
**Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures; however, for governmental activities, those costs are shown in the statement of net position and allocated over their estimated useful lives as annual depreciation expense in the statement of activities.

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

|                        |                   |            |
|------------------------|-------------------|------------|
| Depreciation expense   | \$ (10,132,261)   |            |
| Capital outlays        | <u>40,490,431</u> |            |
| Net Expense Adjustment |                   | 30,358,170 |

Payment of principal on long-term liabilities is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net position and does not affect the statement of activities. 5,832,000

Payment of principal on long-term capital leases is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net position and does not affect the statement of activities. 42,873

Some of the capital assets acquired this year were financed with capital leases. The amount financed by the leases is reported in the governmental funds as a source of financing. On the other hand, the capital leases are not revenues in the Statement of Activities, but rather constitute long-term obligations in the Statement of Net Position. (25,076)

In the Statement of Activities, certain operating expenses, such as compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid).  
Vacation used were more than the amounts earned. 3,183

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

**TRACY UNIFIED SCHOOL DISTRICT**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE TO THE SCHEDULE OF ACTIVITIES (Continued)  
FOR THE YEAR ENDED JUNE 30, 2018**

---

|   |                             |
|---|-----------------------------|
| Proceeds (includes premium) received from the sale of bonds is a revenue in the governmental funds, but it increases long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities.  | (31,164,417)                |
| Premiums on bonds and gain on refunding bonds are amortized over the term of the bonds in the statement of activities, but are recorded as as an other source of funds in the year of issuance in the government funds.   | 576,095                     |
| In the governmental funds, pension costs are based on employer contributions made to pension plans during the year. However, in the Statement of Activities, pension expense is the net effect of all changes in the deferred outflows, deferred inflows and net pension liability during the year. | 475,041                     |
| In the governmental funds, OPEB costs are based on employer contributions made to OPEB plans during the year. However, in the Statement of Activities, OPEB expense is the net effect of all changes in the deferred outflows, deferred inflows, and net OPEB liability during the year.            | (1,080,126)                 |
| Interest on long-term debt is recorded as an expenditure in the funds when it is due; however, in the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due.  | (742,536)                   |
| <b>Change in Net Position of Governmental Activities</b>  | <b><u>\$ 10,013,247</u></b> |

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

**TRACY UNIFIED SCHOOL DISTRICT**

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

---

|                          | <u>Agency<br/>Fund</u> |
|--------------------------|------------------------|
| <b>ASSETS</b>            |                        |
| Deposits and investments | \$ 1,309,670           |
| <b>Total Assets</b>      | <u>\$ 1,309,670</u>    |
| <br><b>LIABILITIES</b>   |                        |
| Due to student groups    | \$ 1,309,670           |
| <b>Total Liabilities</b> | <u>\$ 1,309,670</u>    |

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

# TRACY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

---

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Financial Reporting Entity

The Tracy Unified School District was unified on July 1, 1997 under the laws of the State of California. The District operates under a locally elected seven-member Board form of government and provides educational services to grades K-12 as mandated by the State and/or Federal agencies. The District operates eight K-5 schools, four K-8 schools, two high schools, two continuation high schools, a community day school, and adult educational classes.

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

#### Component Units

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

For financial reporting purposes, the component unit has 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 of the District. The component unit, although a legally separate entity is reported in the financial statements using the blended presentation method as if it were part of the District's operations because the governing board of the component unit is essentially the same as the governing board of the District and because its purpose is to finance the construction of facilities to be used for the direct benefit of the District.

The Tracy School Facilities Financing Authority's financial activity is presented in the financial statements as the TSFFA Bond Interest and Redemption Fund. Bonds issued by the Authority and purchased by the District are included as long-term liabilities in the government-wide financial statements. Individually prepared financial statements of the Authority may be obtained through the business office of the District.

#### Other Related Entities

**Charter School** The District has approved three Charter Schools pursuant to *Education Code* Section 47605. They are Discovery Charter, Primary Charter, and Millennium Charter. The Charter Schools are operated by Tracy Learning Center which is not considered a component unit of the District. The District receives revenue on behalf of the Charter Schools which it passes on to the Charters. This activity is not accounted for in District funds.

# TRACY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

---

### **Basis of Presentation - Fund Accounting**

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

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

### **Major Governmental Funds**

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

Three funds currently defined as special revenue funds in the California State Accounting Manual (CSAM) do not meet the GASB Statement No. 54 special revenue fund definition. Under the flexibility provisions of current statute that allow certain formerly restricted revenues to be used for any educational purpose, Fund 11, Adult Education Fund, Fund 14, Deferred Maintenance Fund, and Fund 17, Special Reserve Fund for other than Capital Outlay do not currently meet the definition of special revenue funds as these funds are no longer primarily composed of restricted or committed revenue sources.

As the District has not taken formal action to commit the flexed revenues formerly restricted to these programs to the continued operation of the original programs, the revenues within these funds would be considered to be available for general educational purposes, resulting in Fund 11, Adult Education Fund, Fund 14, Deferred Maintenance Fund, and Fund 17, Special Reserve for other than Capital Outlay being combined with the General Fund for presentation in these audited financial statements.

As a result, the General Fund reflects an increase in assets, liabilities, fund balance, revenues and expenditures of \$10,921,720, \$1,785,975, \$9,135,744, \$2,989,156, and \$4,000,760, respectively.

**Building Fund** The Building Fund exists primarily to account separately for proceeds from the sale of bonds (*Education Code* Section 15146) and may not be used for any purposes other than those for which the bonds were issued.

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

# TRACY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

---

**County School Facilities Fund** The County Schools Facilities Fund is established pursuant to *Education Code* Section 17070.43 to receive apportionments from the 1998 State School Facilities Fund (Proposition 1A), the 2002 State School Facilities Fund (Proposition 47), the 2004 State School Facilities Fund (Proposition 55), the 2006 State Schools Facilities Fund (Proposition 1D) or the 2006 State School Facilities Fund (Proposition 51) authorized by the State Allocation Board for new school facility construction, modernization projects, and facility hardship grants, as provided in the Leroy F. Green School Facilities Act of 1998 (*Education Code* Section 17010 et seq.).

### Non-Major Governmental Funds

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

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

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

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

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

**TSFFA Fund** The TSFFA Fund is used to account for the activity related to the TSFFA component unit bond repayments.

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

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

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

# TRACY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

---

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

### **Basis of Accounting - Measurement Focus**

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

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

Net position should be reported as restricted when constraints placed on net position are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net position restricted for other activities result from special revenue funds and the restrictions on their use.

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

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

# TRACY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

---

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

**Revenues – Exchange and Non-Exchange Transactions** Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter, to be used to pay liabilities of the current fiscal year. Generally, available is defined as collectible within 45 or 60 days.

However, to achieve comparability of reporting among California districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to State-aid apportionments, the California Department of Education has defined available for districts as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

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

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

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

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

# TRACY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

---

### **Investments**

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

### **Restricted Assets**

Restricted assets arise when restrictions on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets in the Debt Service Fund represent investments required by debt covenants to be set aside by the District for the purpose of satisfying certain requirements of the bonded debt issuance. The District reported restricted net position of \$55,487,152 at June 30, 2018.

### **Prepaid Expenditures (Expenses)**

Prepaid expenditures (expenses) represent amounts paid in advance of receiving goods or services. The District has the option of reporting an expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditures over the benefiting period.

### **Stores Inventories**

Inventories consist of expendable food and supplies held for consumption. Inventories are stated at cost, on the weighted average basis. The costs of inventory items are recorded as expenditures in the governmental type funds when used.

### **Capital Assets and Depreciation**

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. Capital assets are long-lived assets of the District. The District maintains a capitalization threshold of \$20,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, but are expensed as incurred.

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

Depreciation is computed using the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 20 to 50 years; improvements, 5 to 50 years; equipment, 2 to 15 years.

# TRACY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

---

### **Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental activities column of the statement of net position, except for the net residual amounts due between governmental activities, which are presented as internal balances.

### **Compensated Absences**

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

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

### **Accrued Liabilities and Long-Term Obligations**

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

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

### **Debt Issuance Costs, Debt Premiums and Discounts**

In the government-wide financial statements long-term obligations are reported as liabilities in the applicable governmental activities, fund statement of net position. Debt premiums and discounts, as well as issuance costs related to prepaid insurance costs, are amortized over the life of the bonds using the straight-line method.

In governmental fund financial statements, bond premiums and discounts, as well as debt issuance costs are recognized in the current period. The face amount of the debt is reported as other financing sources. Premiums received on debt issuance are also reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds, are reported as debt service expenditures.

# TRACY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

---

### Deferred Outflows/Inflows of Resources

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

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

### Pensions

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

### Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District Plan and additions to/deductions from the District Plan's fiduciary net position has been determined on the same basis as it is reported by the District Plan. For this purpose, the District Plan recognizes benefit payments when due and payable in accordance with the benefit terms.

### Fund Balances – Governmental Funds

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

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

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

**Committed** – amounts that can be used only for specific purposes determined by a formal action of the governing board. The governing board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through resolution or other action as approved by the governing board. The District currently does not have any committed funds.

# TRACY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

---

**Assigned** – amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the District’s adopted policy, only the governing board or associate superintendent of business services may assign amounts for specific purposes.

**Unassigned** – all other spendable amounts.

### **Spending Order Policy**

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

### **Minimum Fund Balance Policy**

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

### **Net Position**

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

### **Interfund Activity**

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

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

# TRACY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

---

### Estimates

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

### Property Tax

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County of San Joaquin bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

### Changes in Accounting Principles

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

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

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

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

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation;
- Reporting amounts previously reported as goodwill and "negative" goodwill;
- Classifying real estate held by insurance entities;
- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost;
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus;

# TRACY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

---

- Recognizing on behalf payments for pensions or OPEB in employer financial statements;
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB;
- Classifying employer-paid member contributions for OPEB;
- Simplifying certain aspects of the alternative measurement method for OPEB; and
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

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

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

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

### **New Accounting Pronouncements**

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

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

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

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

# TRACY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

---

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

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

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

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

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

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

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

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

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

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

# TRACY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

---

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

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

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

### NOTE 2 – DEPOSITS AND INVESTMENTS

#### Summary of Deposits and Investments

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

|                                |                              |
|--------------------------------|------------------------------|
| Governmental funds             | \$ 137,939,853               |
| Fiduciary funds                | <u>1,309,670</u>             |
| Total Deposits and Investments | <u><u>\$ 139,249,523</u></u> |

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

|                                |                              |
|--------------------------------|------------------------------|
| Cash on hand and in banks      | \$ 4,077,797                 |
| Cash in revolving              | 15,000                       |
| Investments                    | <u>135,156,726</u>           |
| Total Deposits and Investments | <u><u>\$ 139,249,523</u></u> |

# TRACY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

---

### Policies and Practices

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

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

The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

### General Authorizations

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

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

**TRACY UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

---

**Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by purchasing a combination of shorter term and longer term investments by maintaining funds in the investment pool listed below. The District monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. Information about the weighted average maturity of the District’s portfolio is presented in the following schedule:

| <u>Investment Type</u>          | <u>Fair Value</u> | <u>Weighted Average Maturity in Days</u> |
|---------------------------------|-------------------|--|
| County Treasury Investment Pool | \$ 135,156,726    | 482 days                                 |

**Custodial Credit Risk - Deposits**

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2018, approximately \$1,100,000 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 agent, but not in the name of the District.

**Custodial Credit Risk - Investments**

This is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The District's custodial credit risk is limited as all funds were invested in the county treasury investment pool.

**TRACY UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

---

**NOTE 3 - FAIR VALUE MEASUREMENTS**

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

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

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

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

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

The District's fair value measurements are as follows at June 30, 2018:

| Investment Type                 | Fair Value     | Fair Value Measurements Using |                   |                   | Uncategorized  |
|---------------------------------|----------------|-------------------------------|-------------------|-------------------|----------------|
|                                 |                | Level 1<br>Inputs             | Level 2<br>Inputs | Level 3<br>Inputs |                |
| County Treasury Investment Pool | \$ 135,156,726 | \$ -                          | \$ -              | \$ -              | \$ 135,156,726 |

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

**TRACY UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

**NOTE 4 - RECEIVABLES**

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

|                         | General<br>Fund     | Building<br>Fund  | Capital<br>Facilities<br>Fund | County School<br>Facilities<br>Fund | Non-Major<br>Governmental<br>Funds | Total               |
|-------------------------|---------------------|-------------------|-------------------------------|-------------------------------------|------------------------------------|---------------------|
| Federal Government      |                     |                   |                               |                                     |                                    |                     |
| Categorical aid         | \$ 3,039,316        | \$ -              | \$ -                          | \$ -                                | \$ 126,076                         | \$ 3,165,392        |
| State Government        |                     |                   |                               |                                     |                                    |                     |
| Principal apportionment | 299,088             | -                 | -                             | -                                   | 28,675                             | 327,763             |
| Categorical aid         | 249,685             | -                 | -                             | -                                   | -                                  | 249,685             |
| Lottery                 | 594,049             | -                 | -                             | -                                   | -                                  | 594,049             |
| Local Government        |                     |                   |                               |                                     |                                    |                     |
| Interest                | 219,926             | 107,447           | 120,986                       | 26,192                              | 7,593                              | 482,144             |
| Other Local Sources     | 461,240             | -                 | 87,304                        | -                                   | 95                                 | 548,639             |
| Total                   | <u>\$ 4,863,304</u> | <u>\$ 107,447</u> | <u>\$ 208,290</u>             | <u>\$ 26,192</u>                    | <u>\$ 162,439</u>                  | <u>\$ 5,367,672</u> |

**TRACY UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

**NOTE 5 - CAPITAL ASSETS**

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

|  | Balance<br>July 1, 2017 | Additions            | Deductions          | Balance<br>June 30, 2018 |
|--|-------------------------|----------------------|---------------------|--------------------------|
| <b>Governmental Activities</b>   |                         |                      |                     |                          |
| Capital Assets Not Being Depreciated:  |                         |                      |                     |                          |
| Land   | \$ 27,124,015           | \$ -                 | \$ -                | \$ 27,124,015            |
| Construction in Progress   | 9,151,340               | 35,555,803           | 4,496,214           | 40,210,929               |
| Total Capital Assets<br>Not Being Depreciated                                    | <u>36,275,355</u>       | <u>35,555,803</u>    | <u>4,496,214</u>    | <u>67,334,944</u>        |
| Capital Assets Being Depreciated:  |                         |                      |                     |                          |
| Land Improvements  | 24,577,640              | 2,900                | -                   | 24,580,540               |
| Buildings and Improvements   | 387,699,909             | 8,272,082            | -                   | 395,971,991              |
| Furniture and Equipment  | 9,213,205               | 1,064,749            | -                   | 10,277,954               |
| Vehicles   | 8,660,740               | 91,111               | -                   | 8,751,851                |
| Total Capital Assets Being<br>Depreciated  | <u>430,151,494</u>      | <u>9,430,842</u>     | <u>-</u>            | <u>439,582,336</u>       |
| Total Capital Assets   | <u>466,426,849</u>      | <u>44,986,645</u>    | <u>4,496,214</u>    | <u>506,917,280</u>       |
| Less Accumulated Depreciation:   |                         |                      |                     |                          |
| Land Improvements  | 14,682,366              | 975,627              | -                   | 15,657,993               |
| Buildings and Improvements   | 113,153,219             | 8,130,019            | -                   | 121,283,238              |
| Furniture and Equipment  | 5,909,336               | 770,444              | -                   | 6,679,780                |
| Vehicles   | 7,796,901               | 256,171              | -                   | 8,053,072                |
| Total Accumulated Depreciation<br>Governmental Activities Capital<br>Assets, Net | <u>141,541,822</u>      | <u>10,132,261</u>    | <u>-</u>            | <u>151,674,083</u>       |
|  | <u>\$ 324,885,027</u>   | <u>\$ 34,854,384</u> | <u>\$ 4,496,214</u> | <u>\$ 355,243,197</u>    |

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

|   |                      |
|---|----------------------|
| <b>Governmental Activities</b>                      |                      |
| Instruction   | \$ 8,769,679         |
| Instructional library, media, and technology        | 413,010              |
| Home-to-school transportation                       | 274,238              |
| Food services                                       | 114,362              |
| All other general administration                    | 270,624              |
| Plant services                                      | 290,348              |
| Total Depreciation Expenses Governmental Activities | <u>\$ 10,132,261</u> |

**TRACY UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

**NOTE 6 – INTERFUND TRANSACTIONS**

**Interfund Receivables/Payables (Due To/Due From)**

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

| Due To                        | Due From     |                               |                              | Total        |
|-------------------------------|--------------|-------------------------------|------------------------------|--------------|
|                               | General Fund | County                        |                              |              |
|                               |              | County School Facilities Fund | Non-Major Governmental Funds |              |
| General Fund                  | \$ -         | \$ -                          | \$ 1,095                     | \$ 1,095     |
| Building Fund                 | 8,014        | 4,064,641                     | 1,324,417                    | 5,397,072    |
| County School Facilities Fund | 2,517        | -                             | -                            | 2,517        |
| Non-Major Governmental Funds  | 333,000      | -                             | -                            | 333,000      |
| Total                         | \$ 343,531   | \$ 4,064,641                  | \$ 1,325,512                 | \$ 5,733,684 |

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

**Operating Transfers**

Interfund transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Interfund transfers for the year ended June 30, 2018, consisted of the following:

| Transfer To   | Transfer From |                               | Total         |
|---------------|---------------|-------------------------------|---------------|
|               | General Fund  | County School Facilities Fund |               |
| Building Fund | \$ 16,865     | \$ 33,444,824                 | \$ 33,461,689 |

|   |                      |
|---|----------------------|
| The Building Fund transferred to the General Fund to cover administrative expenditure reimbursements.     | \$ 16,865            |
| The Bond Fund transferred to the County Schools Facility Fund for construction expenditure reimbursement. | 33,444,824           |
|   | <u>\$ 33,461,689</u> |

**TRACY UNIFIED SCHOOL DISTRICT**

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

**NOTE 7 - ACCOUNTS PAYABLE**

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

|                               | General<br>Fund     | Capital<br>Facilities<br>Fund | County School<br>Facilities<br>Fund | Non-Major<br>Governmental<br>Funds | Total                |
|-------------------------------|---------------------|-------------------------------|-------------------------------------|------------------------------------|----------------------|
| Vendor payables               | \$ 5,222,352        | \$ 264,240                    | \$ 4,921,194                        | \$ 57,791                          | \$ 10,465,577        |
| State principal apportionment | 287,575             | -                             | -                                   | -                                  | 287,575              |
| Salaries and benefits         | 2,304,089           | -                             | -                                   | 39,622                             | 2,343,711            |
| Total                         | <u>\$ 7,814,016</u> | <u>\$ 264,240</u>             | <u>\$ 4,921,194</u>                 | <u>\$ 97,413</u>                   | <u>\$ 13,096,863</u> |

**NOTE 8 - UNEARNED REVENUE**

Unearned revenue at June 30, 2018, consists of:

|                              | General<br>Fund   | Non-Major<br>Governmental<br>Funds | Total             |
|------------------------------|-------------------|------------------------------------|-------------------|
| Federal financial assistance | \$ 49,814         | \$ -                               | \$ 49,814         |
| State categorical aid        | 198,466           | 10,554                             | 209,020           |
| Other local                  | 15,102            | -                                  | 15,102            |
| Total                        | <u>\$ 263,382</u> | <u>\$ 10,554</u>                   | <u>\$ 273,936</u> |

**NOTE 9 - LONG-TERM OBLIGATIONS**

**Summary**

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

|   | Balance<br>July 1, 2017<br>as restated | Additions            | Deductions          | Balance<br>June 30, 2018 | Due in<br>One Year  |
|---|--|----------------------|---------------------|--------------------------|---------------------|
| General obligation bonds                              | \$ 108,024,004                         | \$ 30,631,286        | \$ 5,832,000        | \$ 132,823,290           | \$ 2,738,000        |
| Bond premium, net                                     | 7,402,557                              | 1,164,417            | 450,820             | 8,116,154                | 518,102             |
| Compensated absences                                  | 3,786                                  | -                    | 3,183               | 603                      | -                   |
| Capital leases  | 129,232                                | 25,076               | 42,873              | 111,435                  | 37,628              |
| Net other post employment<br>benefit (OPEB) liability | 17,398,434                             | 1,754,624            | -                   | 19,153,058               | -                   |
| Net pension liability                                 | 133,507,158                            | 24,459,866           | -                   | 157,967,024              | -                   |
|   | <u>\$ 266,465,171</u>                  | <u>\$ 58,035,269</u> | <u>\$ 6,328,876</u> | <u>\$ 318,171,564</u>    | <u>\$ 3,293,730</u> |

**TRACY UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

The general obligation bonds will be paid from property tax assessments through the bond interest and redemption fund. The capital lease payments are generally paid through the general fund. The accrued vacation, other postemployment benefits, and pension liability will be paid by the fund for which the employee worked.

**Bonded Debt**

The outstanding general obligation bonded debt is as follows:

| Issue Date    | Maturity Date | Interest Rate | Original Issue | Bonds Outstanding July 1, 2017 | Issued /Accreted     | Redeemed            | Bonds Outstanding June 30, 2018 |
|---------------|---------------|---------------|----------------|--------------------------------|----------------------|---------------------|---------------------------------|
| April 2009    | 8/1/2033      | 3.00% - 6.00% | 12,000,000     | \$ 585,000                     | \$ -                 | \$ 145,000          | \$ 440,000                      |
| April 2011    | 8/1/2026      | 3.00%         | 16,000,000     | 13,360,000                     | -                    | 687,000             | 12,673,000                      |
| April 2011    | 8/1/2041      | 6.60% - 8.54% | 5,999,637      | 566,453                        | 48,663               | -                   | 615,116                         |
| April 2011    | 8/1/2041      | 6.60% - 8.54% | 5,030,649      | 7,907,551                      | 582,623              | -                   | 8,490,174                       |
| April 2014    | 8/1/2032      | 3.00% - 5.00% | 27,460,000     | 25,005,000                     | -                    | 955,000             | 24,050,000                      |
| February 2015 | 8/1/2029      | 2.00% - 5.00% | 14,910,000     | 14,635,000                     | -                    | 565,000             | 14,070,000                      |
| July 2015     | 8/1/2041      | 3.25% - 4.00% | 9,100,000      | 8,685,000                      | -                    | 305,000             | 8,380,000                       |
| July 2015     | 8/1/2040      | 4.00% - 5.00% | 29,000,000     | 25,470,000                     | -                    | 3,175,000           | 22,295,000                      |
| March 2016    | 8/1/2035      | 2.00% - 5.00% | 11,940,000     | 11,810,000                     | -                    | -                   | 11,810,000                      |
| April 2018    | 8/1/2042      | 2.00% - 4.00% | 30,000,000     | -                              | 30,000,000           | -                   | 30,000,000                      |
|               |               |               |                | <u>\$ 108,024,004</u>          | <u>\$ 30,631,286</u> | <u>\$ 5,832,000</u> | <u>\$ 132,823,290</u>           |

**Debt Service Requirements to Maturity**

The general obligation bonds mature through fiscal year 2042 as follows:

| Fiscal Year        | Principal             | Accreted Interest    | Interest to Maturity | Total                 |
|--------------------|-----------------------|----------------------|----------------------|-----------------------|
| 2019               | \$ 2,738,000          | \$ -                 | \$ 5,242,953         | \$ 7,980,953          |
| 2020               | 5,834,000             | -                    | 5,413,334            | 11,247,334            |
| 2021               | 5,576,000             | -                    | 4,660,833            | 10,236,833            |
| 2022               | 4,039,000             | -                    | 4,462,308            | 8,501,308             |
| 2023               | 4,476,000             | -                    | 4,284,358            | 8,760,358             |
| 2024-2028          | 30,959,016            | 905,984              | 17,933,705           | 49,798,705            |
| 2029-2033          | 27,441,193            | 6,200,432            | 12,076,320           | 45,717,945            |
| 2034-2038          | 21,489,100            | 8,617,395            | 7,319,757            | 37,426,252            |
| 2039-2042          | 26,535,591            | 9,651,809            | 2,423,714            | 38,611,114            |
| Total              | <u>129,087,900</u>    | <u>\$ 25,375,620</u> | <u>\$ 63,817,282</u> | <u>\$ 218,280,802</u> |
| Accretions to date | 3,735,390             |                      |                      |                       |
| Total              | <u>\$ 132,823,290</u> |                      |                      |                       |

# TRACY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

---

On February 11, 2015, the District issued \$14,910,000 in General Obligation Refunding Bonds to refund a portion of the District's outstanding 2006 Election, Series 2008. The net proceeds were used to purchase U. S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments of the 2006 Election, Series 2008 bonds. The balance in the escrow account at June 30, 2018 was \$0.

On March 22, 2016, the District issued \$11,490,000 in General Obligation Refunding Bonds to refund the District's outstanding 2008 Election, Series 2009, and a portion of the 2008 Election, Series 2011B bonds. The net proceeds were used to purchase U. S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for future debt service payments. The balance in the escrow account at June 30, 2018 was \$12,357,216. The economic gain on the refunding was \$1,966,847.

### Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2018, amounted to \$603.

### Capital Leases

The District has entered into agreements to lease various equipment. Such agreements are in substance, purchases (capital leases) and are reported as capital lease obligations. The District's liability on lease agreements with options to purchase is summarized below:

The capital leases have minimum lease payments as follows:

| Year Ending<br>June 30,                 | Lease<br>Payment  |
|---|-------------------|
| 2019                                    | \$ 37,628         |
| 2020                                    | 37,160            |
| 2021                                    | 34,896            |
| 2022                                    | 5,197             |
| Total                                   | <u>114,881</u>    |
| Less: Amount Representing Interest      | <u>(3,446)</u>    |
| Present Value of Minimum Lease Payments | <u>\$ 111,435</u> |

The estimated purchase cost of leased equipment is below the District's capitalization threshold. Leased equipment is not included in capital assets.

**TRACY UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

---

**Net Other Postemployment Benefit (OPEB) Liability**

For the fiscal year ended June 30, 2018, the District reported net OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense for the following plan:

| OPEB<br>Plan  | Net OPEB<br>Liability | Deferred Outflows<br>of Resources | Deferred Inflows<br>of Resources | OPEB<br>Expense |
|---------------|-----------------------|-----------------------------------|----------------------------------|-----------------|
| District Plan | \$ 19,153,058         | \$ 674,498                        | \$ -                             | \$ 2,413,053    |

The details of the plan are as follows:

District Plan

**Plan Administration**

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

*Plan Membership*

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

|   |             |
|---|-------------|
| Inactive employees or beneficiaries currently receiving benefits payments | 70          |
| Active employees  | 1205        |
|   | <u>1275</u> |

*Benefits Provided*

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

*Contributions*

The benefit payment requirements of the Plan members and the District are established and may be amended by the District, the Tracy Educators Association (TEA), the local California Service Employees Association (CSEA), and unrepresented groups. The benefit payment is based on projected pay-as-you-go financing requirements as determined annually through the agreements with the District, TEA, CSEA and the unrepresented groups. For fiscal year 2017-2018, the District paid \$674,498 in benefits.

# TRACY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

---

### Total OPEB Liability of the District

The District's total OPEB liability of \$19,153,058 was measured as of June 30, 2017, and the total OPEB liability used to calculate the total OPEB liability was determined by an actuarial valuation as of that date.

#### *Actuarial Assumptions*

The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following assumptions, applied to all periods included in the measurement, unless otherwise specified:

|                              |   |
|------------------------------|---|
| Inflation                    | 2.75 percent                              |
| Salary increases             | 2.75 percent, average including inflation |
| Discount rate                | 3.5 percent                               |
| Health care cost trend rates | 4.0 percent for 2017                      |

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

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

The actual assumptions used in the June 30, 2017 valuation were based on the results of an actual experience study for the period July 1, 2016 to June 30, 2017.

### Changes in the Net OPEB Liability

|                                    |    |                          |
|------------------------------------|----|--------------------------|
| Balance at June 30, 2016           | \$ | 17,398,434               |
| Service Cost                       |    | 1,785,248                |
| Interest                           |    | 627,805                  |
| Benefit payments                   |    | (658,429)                |
| Net change in total OPEB liability |    | <u>1,754,624</u>         |
| Balance at June 30, 2017           | \$ | <u><u>19,153,058</u></u> |

**TRACY UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

---

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

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or higher than the current rate.

| <u>Discount Rate</u>         | <u>Net OPEB<br/>Liability</u> |
|------------------------------|-------------------------------|
| 1% decrease (2.5%)           | \$ 20,365,092                 |
| Current discount rate (3.5%) | 19,153,058                    |
| 1% increase (4.5%)           | 18,013,545                    |

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

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or higher than the current healthcare costs trend rates.

| <u>Healthcare Cost Trend Rate</u>       | <u>Liability</u> |
|---|------------------|
| 1% decrease (3%)                        | \$ 18,381,769    |
| Current healthcare cost trend rate (4%) | 19,153,058       |
| 1% increase (5%)                        | 19,701,512       |

**OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources related to OPEB**

For the year ended June 30, 2018, the District recognized OPEB expense of \$2,413,053. At June 30, 2018, the District reported deferred outflows of resources for the amount paid by the District for OPEB as the benefits come due subsequent to the measurement date of \$674,498.

**TRACY UNIFIED SCHOOL DISTRICT**

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

**NOTE 10 - FUND BALANCES**

Fund balances are composed of the following elements:

|                                    | General<br>Fund      | Building<br>Fund     | Capital<br>Facilities<br>Fund | County School<br>Facilities<br>Fund | Non-Major<br>Governmental<br>Funds | Total                 |
|------------------------------------|----------------------|----------------------|-------------------------------|-------------------------------------|------------------------------------|-----------------------|
| <b>Nonspendable</b>                |                      |                      |                               |                                     |                                    |                       |
| Revolving cash                     | \$ 15,000            | \$ -                 | \$ -                          | \$ -                                | \$ -                               | \$ 15,000             |
| Stores inventories                 | 147,332              | -                    | -                             | -                                   | 95,448                             | 242,780               |
| Prepaid expenditures               | 309,869              | -                    | -                             | -                                   | -                                  | 309,869               |
| <b>Total Nonspendable</b>          | <b>472,201</b>       | <b>-</b>             | <b>-</b>                      | <b>-</b>                            | <b>95,448</b>                      | <b>567,649</b>        |
| <b>Restricted</b>                  |                      |                      |                               |                                     |                                    |                       |
| Legally restricted programs        | 3,048,567            | -                    | -                             | -                                   | -                                  | 3,048,567             |
| Capital projects                   | -                    | 20,884,165           | 32,188,257                    | 12,723,957                          | -                                  | 65,796,379            |
| Debt services                      | -                    | -                    | -                             | -                                   | 10,249,023                         | 10,249,023            |
| <b>Total Restricted</b>            | <b>3,048,567</b>     | <b>20,884,165</b>    | <b>32,188,257</b>             | <b>12,723,957</b>                   | <b>10,249,023</b>                  | <b>79,093,969</b>     |
| <b>Assigned</b>                    |                      |                      |                               |                                     |                                    |                       |
| Budget shortfalls                  | 31,249,984           | -                    | -                             | -                                   | -                                  | 31,249,984            |
| Textbooks and technology           | 3,000,000            | -                    | -                             | -                                   | -                                  | 3,000,000             |
| Other                              | 9,135,748            | -                    | -                             | -                                   | 2,736,727                          | 11,872,475            |
| <b>Total Assigned</b>              | <b>43,385,732</b>    | <b>-</b>             | <b>-</b>                      | <b>-</b>                            | <b>2,736,727</b>                   | <b>46,122,459</b>     |
| <b>Unassigned</b>                  |                      |                      |                               |                                     |                                    |                       |
| Reserve for economic uncertainties | 4,705,300            | -                    | -                             | -                                   | -                                  | 4,705,300             |
| <b>Total Unassigned</b>            | <b>4,705,300</b>     | <b>-</b>             | <b>-</b>                      | <b>-</b>                            | <b>-</b>                           | <b>4,705,300</b>      |
| <b>Total</b>                       | <b>\$ 51,611,800</b> | <b>\$ 20,884,165</b> | <b>\$ 32,188,257</b>          | <b>\$ 12,723,957</b>                | <b>\$ 13,081,198</b>               | <b>\$ 130,489,377</b> |

# TRACY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

---

### NOTE 11 - RISK MANAGEMENT

#### Property and Liability

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

#### Workers' Compensation

The District participates in the San Joaquin County Schools Workers' Compensation (SJCSWC), an insurance purchasing pool. The intent of the SJCSWC is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the SJCSWC. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all districts in the SJCSWC. Each participant pays its workers' compensation premium based on its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of each participated school districts. A participant will then either receive money from or be required to contribute to the "equity-pooling fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the SJCSWC. Coverage provided by SJCSWC, SAFER, and NorCal Relief for property and liability and workers' compensation is as follows:

| Insurance Program / Company Name                 | Type of Coverage      | Limits                 |
|--|-----------------------|------------------------|
| San Joaquin County Schools Workers' Compensation | Workers' Compensation | \$ 1,000,000           |
| NorCal Relief                                    | Liability             | 1,000,000              |
|  | Auto                  | 1,000,000              |
|  | Property              | 250,250,000            |
| SAFER  | Excess Liability      | 1,000,000 - 25,000,000 |

#### Employee Medical Benefits

The District has contracted with the Central Valley Schools Health and Welfare Trusts to provide employee medical and surgical benefits. The Trust was established as a combined effort of District Superintendents and labor representatives of both the California Teachers Association (CTA) and the California School Employees Association (CSEA). The purpose of the trust is to pool the resources of smaller school districts to achieve health care benefits similar to those available to larger districts. Rates are set through an annual calculation process. The District pays a monthly contribution, which is placed in a common fund from which claim payments are made for all participating districts. Claims are paid for all participants regardless of claims flow. The Board of Directors has a right to return monies to a district subsequent to the settlement of all expenses and claims if a district withdraws from the pool.

**TRACY UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

**NOTE 12 - EMPLOYEE RETIREMENT SYSTEMS**

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

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

| <u>Pension Plan</u> | <u>Collective Net<br/>Pension Liability</u> | <u>Collective<br/>Deferred Outflows<br/>of Resources</u> | <u>Collective<br/>Deferred Inflows<br/>of Resources</u> | <u>Collective<br/>Pension Expense</u> |
|---------------------|---|--|---|---------------------------------------|
| CalSTRS             | \$ 116,192,524                              | \$ 39,478,666  | \$ 11,432,635   | \$ 10,847,552                         |
| CalPERS             | 41,774,500                                  | 12,741,010   | 866,694   | 7,376,072                             |
| Total               | <u>\$ 157,967,024</u>                       | <u>\$ 52,219,676</u>                                     | <u>\$ 12,299,329</u>                                    | <u>\$ 18,223,624</u>                  |

The details of each plan are as follows:

**California State Teachers' Retirement System (CalSTRS)**

**Plan Description**

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

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

<http://www.calstrs.com/member-publications>.

**Benefits Provided**

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

**TRACY UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

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

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

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

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

**Contributions**

Required member, District and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven year period. The contribution rates for each plan for the year ended June 30, 2018, are presented above and the District's total contributions were \$9,301,542.

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

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

|   |                      |
|---|----------------------|
| Total net pension liability, including State share:                                   |                      |
| District's proportionate share of net pension liability                               | \$ 116,192,524       |
| State's proportionate share of the net pension liability associated with the District | <u>68,738,516</u>    |
| Total   | <u>\$184,931,040</u> |

**TRACY UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

The net pension liability was measured as of June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. The District's proportionate share for the measurement period June 30, 2017 and June 30, 2016, respectively was 0.1256 percent and 0.1218 percent, resulting in a net increase in the proportionate share of 0.0038 percent.

For the year ended June 30, 2018, the District recognized pension expense of \$10,847,552. In addition, the District recognized pension expense and revenue of \$5,589,923 for support provided by the State. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|  | Deferred Outflows<br>of Resources | Deferred Inflows<br>of Resources |
|--|-----------------------------------|----------------------------------|
| Pension contributions subsequent to measurement date   | \$ 15,001,198                     | \$ -                             |
| Net change in proportionate share of net pension liability   | 2,521,755                         | 6,311,521                        |
| Differences between projected and actual earnings on pension plan investments                        | -                                 | 3,094,530                        |
| Differences between expected and actual experience in the measurement of the total pension liability | 429,691                           | 2,026,584                        |
| Changes of assumptions   | 21,526,022                        | -                                |
| Total  | <u>\$ 39,478,666</u>              | <u>\$ 11,432,635</u>             |

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year. The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

| Year Ended<br>June 30, | Deferred<br>Outflows/(Inflows)<br>of Resources |
|------------------------|--|
| 2019                   | \$ (2,572,598)                                 |
| 2020                   | 1,946,698                                      |
| 2021                   | 280,702  |
| 2022                   | (2,749,332)                                    |
| Total                  | <u>\$ (3,094,530)</u>                          |

**TRACY UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, differences between expected and actual experience in the measurement of the total pension liability, and changes of assumptions will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is 7 years and will be recognized in pension expense as follows:

| Year Ended<br><u>June 30,</u> | Deferred<br>Outflows/(Inflows)<br>of Resources |
|-------------------------------|--|
| 2019                          | \$ 2,364,841                                   |
| 2020                          | 2,364,841                                      |
| 2021                          | 2,364,841                                      |
| 2022                          | 2,364,840                                      |
| 2023                          | 2,600,417                                      |
| Thereafter                    | 4,079,583                                      |
| Total                         | <u><u>\$ 16,139,363</u></u>                    |

**Actuarial Methods and Assumptions**

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

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

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

**TRACY UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

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

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

**Discount Rate**

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

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

| <u>Discount Rate</u>          | <u>Liability</u> |
|-------------------------------|------------------|
| 1% decrease (6.10%)           | \$ 170,607,514   |
| Current discount rate (7.10%) | 116,192,524      |
| 1% increase (8.10%)           | 72,031,073       |

# TRACY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

---

### California Public Employees Retirement System (CalPERS)

#### Plan Description

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

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

#### Benefits Provided

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

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

|   | STRP Defined Benefit Program      |                                |
|---|-----------------------------------|--------------------------------|
|   | On or before<br>December 31, 2012 | On or after<br>January 1, 2013 |
| Hire date   | December 31, 2012                 | January 1, 2013                |
| Benefit formula   | 2% at 55                          | 2% at 62                       |
| Benefit vesting schedule                                  | 5 years of service                | 5 years of service             |
| Benefit payments  | Monthly for life                  | Monthly for life               |
| Retirement age  | 55                                | 62                             |
| Monthly benefits as a percentage of eligible compensation | 1.1% - 2.5%                       | 1.0% - 2.5%                    |
| Required employee contribution rate                       | 7.000%                            | 6.50%                          |
| Required employer contribution rate                       | 15.531%                           | 15.531%                        |

# TRACY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

---

### Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2018, are presented above and the total District contributions were \$3,651,878.

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

As of June 30, 2018, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$41,775,500. The net pension liability was measured as of June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2017 and June 30, 2016, respectively was 0.1750 percent and 0.1772 percent, resulting in a net decrease in the proportionate share of 0.0022 percent.

For the year ended June 30, 2018, the District recognized pension expense of \$7,376,072. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|  | Deferred Outflows<br>of Resources | Deferred Inflows<br>of Resources |
|--|-----------------------------------|----------------------------------|
| Pension contributions subsequent to measurement date   | \$ 3,697,467                      | \$ -                             |
| Net change in proportionate share of net pension liability   | -                                 | 374,851                          |
| Differences between projected and actual earnings on pension plan                                    | 1,445,112                         | -                                |
| Differences between expected and actual experience in the measurement of the total pension liability | 1,496,608                         | -                                |
| Change of assumptions  | 6,101,823                         | 491,843                          |
| Total  | <u>\$ 12,741,010</u>              | <u>\$ 866,694</u>                |

**TRACY UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

---

The deferred outflow of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year. The deferred inflow of resources will be amortized over a closed five-year period and will be recognized in pension expense as follows:

| Year Ended<br><u>June 30,</u> | Deferred<br>Outflows/(Inflows)<br>of Resources |
|-------------------------------|--|
| 2018                          | \$ (39,157)                                    |
| 2019                          | 1,667,346                                      |
| 2020                          | 608,266  |
| 2021                          | <u>(791,343)</u>                               |
| Total                         | <u>\$ 1,445,112</u>                            |

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

| Year Ended<br><u>June 30,</u> | Deferred<br>Outflows/(Inflows)<br>of Resources |
|-------------------------------|--|
| 2018                          | \$ 2,342,135                                   |
| 2019                          | 2,363,914                                      |
| 2020                          | <u>2,025,688</u>                               |
| Total                         | <u>\$ 6,731,737</u>                            |

**Actuarial Methods and Assumptions**

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

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

**TRACY UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

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

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

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

**Discount Rate**

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

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

| <u>Discount Rate</u>          | <u>Net Pension Liability</u> |
|-------------------------------|------------------------------|
| 1% decrease (6.15%)           | \$ 61,463,676                |
| Current discount rate (7.15%) | 41,774,500                   |
| 1% increase (8.15%)           | 25,440,679                   |

# TRACY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

---

### **Tax Deferred Annuity**

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) must be covered by Social Security or an alternative plan. The District has elected to use the TDA as its alternative plan. Contributions made by the District and an employee vest immediately. The District contributes 3.3 percent of an employee's gross earnings. There are no employee required contributions.

### **On Behalf Payments**

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of \$5,589,923 (9.328 percent of annual payroll). Contributions are no longer appropriated in the annual Budget Act for the legislatively mandated benefits to CalPERS. Therefore, there is no on-behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements.

**TRACY UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

**NOTE 13- COMMITMENTS AND CONTINGENCIES**

**Construction Commitments**

As of June 30, 2018, the District had the following commitments with respect to unfinished capital projects:

| Capital Project                                  | Remaining<br>Construction<br>Commitment | Expected<br>Date of<br>Completion |
|--|---|-----------------------------------|
| <b>Lighting Project</b>                          |   |                                   |
| Bohn Elementary School                           | \$ 29,224                               | 12/31/18                          |
| Hirsh Elementary School                          | 33,834                                  | 12/31/18                          |
| Jacobson Elementary School                       | 35,864                                  | 12/31/18                          |
| Villalovoz Elementary School                     | 32,103                                  | 12/31/18                          |
| Poet-Christian School                            | 183,418                                 | 12/31/18                          |
| <b>Heating and Air Conditioning Project</b>      |   |                                   |
| Poet-Christian School                            | 193,110                                 | 12/31/18                          |
| <b>Marquee</b>                                   |   |                                   |
| Kimball High School                              | 69,889                                  | 9/30/2018                         |
| <b>Stadium Field Replacement</b>                 |   |                                   |
| Kimball High School                              | 420,771                                 | 10/31/2018                        |
| <b>Fume Hoods Project</b>                        |   |                                   |
| West High School                                 | 300,918                                 | 12/31/2018                        |
| <b>Paving Improvements</b>                       |   |                                   |
| Various Sites                                    | 139,778                                 | 9/30/2018                         |
| <b>Property Damage/Insurance</b>                 |   |                                   |
| Bohn Elementary School                           | 683,500                                 | 11/30/2018                        |
| <b>Refurbishment</b>                             |   |                                   |
| West High School                                 | 194,500                                 | 12/31/2018                        |
| <b>Flooring Project</b>                          |   |                                   |
| South West/Park School                           | 74,727                                  | 7/23/2018                         |
| <b>Low Voltage Systems</b>                       |   |                                   |
| Poet-Christian School                            | 399,418                                 | 12/15/2018                        |
| <b>Fire Alarm Systems</b>                        |   |                                   |
| Jacobson Elementary School                       | 356,389                                 | 11/30/2018                        |
| <b>Parking Lot Expansion</b>                     |   |                                   |
| Tracy High School Land Acquisition               | 776,479                                 | 8/20/2018                         |
| <b>School Renovation</b>                         |   |                                   |
| Clover Site/Tracy Learning Center Charter School | 4,629,573                               | 12/31/2018                        |
| Central Elementary School                        | 18,905,029                              | 8/1/2019                          |
|  | <u>\$ 27,458,524</u>                    |                                   |

# TRACY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

---

### **Grants**

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

### **Litigation**

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2018.

### **NOTE 14 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS, JOINT POWER AUTHORITIES AND OTHER RELATED PARTY TRANSACTIONS**

The District is a member of the San Joaquin County Schools Workers' Compensation public entity risk pool and San Joaquin County Schools Data Processing joint powers authority. The District pays an annual premium to the applicable entity for its workers' compensation coverage and information technology support. The relationships between the District, the pool, and the JPA are such that they are not component units of the District for financial reporting purposes.

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

During the year ended June 30, 2018, the District made payments of \$1,803,087 to San Joaquin County Schools Workers' Compensation and \$540,696 to San Joaquin County Schools Data Processing joint powers authority.

### **NOTE 15 – COMMUNITY FACILITIES DISTRICT (JPA)**

The Tracy Area Public Facilities Financing Agency (Agency) was created pursuant to a Joint Powers Agreement between the City of Tracy, Tracy School District, Tracy Joint Union High School District, (Tracy School District and Tracy Joint Union High School District became the Tracy Unified School District effective July 1, 1997) and Jefferson School District for the purpose of forming a community facilities district under the provisions of the Mello-Roos Community Facility Act of 1982. The Agency has established Community Facilities District Number 1987-1 for the purpose of financing, constructing, and acquiring school facilities for each of the school districts and public facilities for the City. The Agency currently has no employees or property and equipment, and its powers are limited to implementation of the Mello-Roos financing plans contemplated in the Joint Powers Agreement.

# TRACY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

---

The Agency and its Community Facilities District are controlled by a governing board consisting of seven members; two members of the Tracy City Council, three members of the School Board of the Tracy Unified School District, and two members of the School Board of the Jefferson School District. All such members of the Agency's governing board are independently elected to their respective member entities. Oversight responsibility, the ability to conduct independent financial affairs, issue debt instruments, approve budget, sign contracts, levy taxes, and otherwise influence operations and account for fiscal matters, is exercised by the Agency's governing Board. Accordingly, the Agency is considered to be a separate reporting entity for financial reporting purposes and the June 30, 2018, audited accompanying financial information reflects only the assets, liabilities, fund balances, revenues and expenditures of the Agency.

Audited financial information for the Agency is summarized below:

|                                  | June 30, 2017*<br>(Audited) |
|----------------------------------|-----------------------------|
| Total Assets                     | \$ 1,853,698                |
| Deferred Outflows                | 148,348                     |
| Total Liabilities                | 5,212,483                   |
| Net Assets                       | <u>\$ (3,210,437)</u>       |
| <br>                             |                             |
| Total Revenues and Other Sources | \$ 1,721,729                |
| Total Expenditures               | 226,533                     |
| Net Increase in Net Position     | <u>\$ 1,495,196</u>         |

\* Most recent information available.

At June 30, 2018, the Agency had outstanding special tax bonds payable of \$5,166,958 with maturities through 2021.

### NOTE 16 – RESTATEMENT

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

#### Government-Wide Financial Statements

|  |                       |
|--|-----------------------|
| Net Position - Beginning   | \$ 200,376,950        |
| Inclusion of OPEB liability from the adoption of GASB Statement No. 75 | <u>(6,072,029)</u>    |
| Net Position - Beginning as Restated                                   | <u>\$ 194,304,921</u> |

---

---

***REQUIRED SUPPLEMENTARY INFORMATION***

---

---

**TRACY UNIFIED SCHOOL DISTRICT**

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

|  | Budgeted Amounts     |                      | Actual<br>(GAAP Basis) | Variances -<br>Positive<br>(Negative) |
|--|----------------------|----------------------|------------------------|---------------------------------------|
|  | Original             | Final                |                        | Final<br>to Actual                    |
|  | <b>REVENUES</b>      |                      |                        |                                       |
| Local Control Funding Formula                                | \$ 129,667,144       | \$ 130,020,847       | \$ 130,020,847         | \$ -                                  |
| Federal sources  | 6,499,508            | 7,322,169            | 7,322,169              | -                                     |
| Other state sources  | 16,557,051           | 13,502,652           | 13,502,652             | -                                     |
| Other local sources  | 5,288,337            | 9,047,262            | 9,135,381              | 88,119                                |
| <b>Total Revenues<sup>1</sup></b>                            | <b>158,012,040</b>   | <b>159,892,930</b>   | <b>159,981,049</b>     | <b>88,119</b>                         |
| <b>EXPENDITURES</b>  |                      |                      |                        |                                       |
| Current  |                      |                      |                        |                                       |
| Certificated salaries  | 70,177,602           | 67,603,621           | 67,605,988             | (2,367)                               |
| Classified salaries  | 25,104,233           | 23,715,316           | 23,719,307             | (3,991)                               |
| Employee benefits  | 35,149,917           | 33,105,776           | 33,106,229             | (453)                                 |
| Books and supplies   | 9,365,947            | 8,885,972            | 8,885,972              | -                                     |
| Services and operating expenditures                          | 16,206,638           | 16,984,288           | 16,984,288             | -                                     |
| Capital outlay   | 8,856,877            | 8,259,668            | 8,259,668              | -                                     |
| Other outgo  | 2,028,913            | 2,238,509            | 2,238,509              | -                                     |
| Debt service   |                      |                      |                        |                                       |
| Debt service - principal                                     | 44,930               | 43,484               | 43,484                 | -                                     |
| <b>Total Expenditures<sup>1</sup></b>                        | <b>166,935,057</b>   | <b>160,836,634</b>   | <b>160,843,445</b>     | <b>(6,811)</b>                        |
| <b>Excess (Deficiency) of Revenues<br/>Over Expenditures</b> | <b>(8,923,017)</b>   | <b>(943,704)</b>     | <b>(862,396)</b>       | <b>81,308</b>                         |
| <b>Other Financing Sources (Uses):</b>                       |                      |                      |                        |                                       |
| Transfers in   | 20,000               | 16,865               | 16,865                 | -                                     |
| <b>Net Financing Sources (Uses)</b>                          | <b>20,000</b>        | <b>16,865</b>        | <b>16,865</b>          | <b>-</b>                              |
| <b>NET CHANGE IN FUND BALANCES</b>                           | <b>(8,903,017)</b>   | <b>(926,839)</b>     | <b>(845,531)</b>       | <b>81,308</b>                         |
| <b>Fund Balance - Beginning</b>                              | <b>52,457,331</b>    | <b>52,457,331</b>    | <b>52,457,331</b>      | <b>-</b>                              |
| <b>Fund Balance - Ending</b>                                 | <b>\$ 43,554,314</b> | <b>\$ 51,530,492</b> | <b>\$ 51,611,800</b>   | <b>\$ 81,308</b>                      |

<sup>1</sup> On behalf payments of \$5,589,923 are included in the actual revenues and expenditures, but have not been included in the budgeted amounts. In addition, due to the consolidation of Fund 11, Adult Education Fund, Fund 14, Deferred Maintenance Fund, and Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects, for reporting purposes into the General Fund, additional revenues and expenditures pertaining to these other funds are included in the Actual (GAAP Basis) revenues and expenditures, however are not included in the original and final General Fund budgets.

**TRACY UNIFIED SCHOOL DISTRICT**

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

---

|  | 2018                        |
|--|-----------------------------|
| <b>Total OPEB Liability</b>  |                             |
| Service Cost   | \$ 1,785,248                |
| Interest   | 627,805                     |
| Benefit payments   | (658,429)                   |
| Net change in total OPEB liability                                 | <u>1,754,624</u>            |
| Total OPEB Liability - beginning                                   | <u>17,398,434</u>           |
| Total OPEB Liability - ending                                      | <u><u>\$ 19,153,058</u></u> |
| <br>   |                             |
| Covered payroll  | <u>\$ 93,654,188</u>        |
| District's total OPEB liability as a percentage of covered payroll | <u>20%</u>                  |

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

**TRACY UNIFIED SCHOOL DISTRICT**

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

---

|                                     | <u>2018</u>          |
|-------------------------------------|----------------------|
| Actuarially determined contribution | <u>Not Available</u> |
| Covered employee payroll            | \$ 93,654,188        |

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

**TRACY UNIFIED SCHOOL DISTRICT**

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

|   | <u>2017</u>           | <u>2016</u>           | <u>2015</u>           | <u>2014</u>           |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
| <b>CalSTRS</b>  |                       |                       |                       |                       |
| District's proportion of the net pension liability  | <u>0.1256%</u>        | <u>0.1218%</u>        | <u>0.1397%</u>        | <u>0.1324%</u>        |
| District's proportionate share of the net pension liability   | <u>\$ 116,192,524</u> | <u>\$ 98,505,968</u>  | <u>\$ 94,050,907</u>  | <u>\$ 77,395,022</u>  |
| State's proportionate share of the net pension liability associated with the District                         | <u>68,738,516</u>     | <u>56,077,690</u>     | <u>49,742,562</u>     | <u>46,734,456</u>     |
| Total   | <u>\$ 184,931,040</u> | <u>\$ 154,583,658</u> | <u>\$ 143,793,469</u> | <u>\$ 124,129,478</u> |
| District's covered - employee payroll   | <u>68,142,627</u>     | <u>63,432,605</u>     | <u>60,371,061</u>     | <u>61,544,416</u>     |
| District's proportionate share of the net pension liability as a percentage of its covered - employee payroll | <u>171%</u>           | <u>155%</u>           | <u>156%</u>           | <u>126%</u>           |
| Plan fiduciary net position as a percentage of the total pension liability                                    | <u>69%</u>            | <u>70%</u>            | <u>74%</u>            | <u>77%</u>            |
| <br><b>CalPERS</b>  |                       |                       |                       |                       |
| District's proportion of the net pension liability  | <u>0.1750%</u>        | <u>0.1772%</u>        | <u>0.1750%</u>        | <u>0.1826%</u>        |
| District's proportionate share of the net pension liability   | <u>\$ 41,774,500</u>  | <u>\$ 35,001,190</u>  | <u>\$ 25,791,744</u>  | <u>\$ 20,733,500</u>  |
| District's covered - employee payroll   | <u>22,315,585</u>     | <u>21,276,798</u>     | <u>19,464,814</u>     | <u>19,069,634</u>     |
| District's proportionate share of the net pension liability as a percentage of its covered - employee payroll | <u>187%</u>           | <u>165%</u>           | <u>133%</u>           | <u>109%</u>           |
| Plan fiduciary net position as a percentage of the total pension liability                                    | <u>72%</u>            | <u>74%</u>            | <u>79%</u>            | <u>83%</u>            |

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

See accompanying note to required supplementary information.

**TRACY UNIFIED SCHOOL DISTRICT**

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

|  | <u>2018</u>       | <u>2017</u>       | <u>2016</u>       | <u>2015</u>       |
|--|-------------------|-------------------|-------------------|-------------------|
| <b>CalSTRS</b>   |                   |                   |                   |                   |
| Contractually required contribution                                  | \$ 9,301,542      | \$ 8,351,418      | \$ 6,681,371      | \$ 5,352,373      |
| Contributions in relation to the contractually required contribution | <u>9,301,542</u>  | <u>8,351,418</u>  | <u>6,681,371</u>  | <u>5,352,373</u>  |
| Contribution deficiency (excess)                                     | <u>\$ -</u>       | <u>\$ -</u>       | <u>\$ -</u>       | <u>\$ -</u>       |
| District's covered - employee payroll                                | <u>65,260,441</u> | <u>68,142,627</u> | <u>63,432,605</u> | <u>60,371,061</u> |
| Contributions as a percentage of covered - employee payroll          | <u>14.25%</u>     | <u>12.26%</u>     | <u>10.53%</u>     | <u>8.87%</u>      |
| <b>CalPERS</b>   |                   |                   |                   |                   |
| Contractually required contribution                                  | \$ 3,651,878      | \$ 3,050,759      | \$ 2,495,988      | \$ 2,278,186      |
| Contributions in relation to the contractually required contribution | <u>3,651,878</u>  | <u>3,050,759</u>  | <u>2,495,988</u>  | <u>2,278,186</u>  |
| Contribution deficiency (excess)                                     | <u>\$ -</u>       | <u>\$ -</u>       | <u>\$ -</u>       | <u>\$ -</u>       |
| District's covered - employee payroll                                | <u>23,879,342</u> | <u>22,315,585</u> | <u>21,276,798</u> | <u>19,464,814</u> |
| Contributions as a percentage of covered - employee payroll          | <u>15.29%</u>     | <u>13.67%</u>     | <u>11.73%</u>     | <u>11.70%</u>     |

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

See accompanying note to required supplementary information.

# TRACY UNIFIED SCHOOL DISTRICT

## NOTE TO REQUIRED SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED JUNE 30, 2018

---

### NOTE 1 - PURPOSE OF SCHEDULES

#### Budgetary Comparison Schedule

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

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

This schedule presents information for the original and final budgets and actual results of operations, as well as the variances from the final budget to actual results of operations.

At June 30, 2018, the District major fund exceeded the budgeted amount in total as follows:

|              | Expenditures and Other Uses |               |          |
|--------------|-----------------------------|---------------|----------|
|              | Budget                      | Actual        | Excess   |
| General Fund | \$160,836,634               | \$160,843,445 | \$ 6,811 |

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

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

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

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

#### Schedule of District Contributions for OPEB

This schedule presents information on the District's actuarially determined contribution, contributions in relation to the actuarially determined contribution, and any excess or deficiency related to the actuarially determined contribution. In the future, as data becomes available, ten years of information will be presented.

# TRACY UNIFIED SCHOOL DISTRICT

## NOTE TO REQUIRED SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED JUNE 30, 2018

---

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

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

*Change in Benefit Terms* – There were no changes in benefit terms since the previous valuation for both CalSTRS and CalPERS.

*Change of Assumptions* – The CalSTRS plan rate of investment return assumption was changed from 7.60 percent to 7.10 percent since the previous valuation. The CalPERS plan rate of investment return assumption was changed from 7.6 percent to 7.15 percent since the previous valuation.

### **Schedule of District Contributions**

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

---

---

***SUPPLEMENTARY INFORMATION***

---

---

**TRACY UNIFIED SCHOOL DISTRICT**

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

| Federal Grantor/Pass-Through<br>Grantor/Program                                  | Federal<br>CFDA<br>Number | Pass-Through<br>Entity<br>Identifying<br>Number | Federal<br>Expenditures | Passed<br>Through<br>To<br>Subrecipients |
|--|---------------------------|---|-------------------------|--|
| <b>U.S. DEPARTMENT OF EDUCATION</b>  |                           |   |                         |  |
| Passed Through the California Department of Education (CDE):                     |                           |   |                         |  |
| Adult Education-Adult Basic Education and ESL                                    | 84.002A                   | 14508   | \$ 64,045               | \$ -                                     |
| Adult Education-Adult Secondary Education  | 84.002                    | 13978   | 42,934                  | -  |
| Special Education Cluster  |                           |   | -                       | -  |
| Basic Local Assistance Entitlement, Part B, Section 611                          | 84.027                    | 13379   | 2,124,859               | -  |
| Basic Local Assistance Entitlement, Part B, Section 611,<br>Private School ISP's | 84.027                    | 10115   | 13,012                  | -  |
| Preschool Local Entitlement, Part B, Section 611                                 | 84.027A                   | 13682   | 200,693                 | -  |
| Preschool Grants, Part B, Section 619  | 84.173                    | 13430   | 43,513                  | -  |
| Subtotal Special Education Cluster   |                           |   | <u>2,382,077</u>        | <u>-</u>                                 |
| Elementary and Secondary Education Act   |                           |   |                         |  |
| Title I - Part A, Basic Grants Low-Income and Neglected                          | 84.010                    | 14329   | 3,414,148               | 3,389                                    |
| Title II - Part A, Improving Teacher Quality Local Grants                        | 84.367                    | 14341   | 356,054                 | 9,431                                    |
| Title III - Limited English Proficient Student Program                           | 84.365                    | 14346   | 82,158                  | -  |
| Technology Secondary II C, Section 131   | 84.048                    | 14894   | 121,643                 | -  |
| Indian Education   | 84.060                    | 10011   | 24,960                  | -  |
| Total U.S. Department of Education   |                           |   | <u>6,488,019</u>        | <u>12,820</u>                            |
| <b>U.S. DEPARTMENT OF AGRICULTURE</b>  |                           |   |                         |  |
| Passed Through the California Department of Education:                           |                           |   |                         |  |
| Child Nutrition Cluster  |                           |   |                         |  |
| National School Lunch Program  | 10.555                    | 13524   | 2,884,965               | -  |
| Especially Needy Breakfast   | 10.553                    | 13526   | 911,042                 | -  |
| Commodities <sup>1</sup>   | 10.555                    | 13755   | 516,112                 | -  |
| Subtotal Child Nutrition Cluster   |                           |   | <u>4,312,119</u>        | <u>-</u>                                 |
| Child and Adult Care Food Program  | 10.558                    | unknown   | 313,574                 | -  |
| Total U.S. Department of Agriculture   |                           |   | <u>4,625,693</u>        | <u>-</u>                                 |
| <b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>                              |                           |   |                         |  |
| Medicaid Cluster   |                           |   |                         |  |
| Medi-Cal Billing Option  | 93.778                    | Not applicable                                  | 64,518                  | -  |
| Subtotal Medicaid Cluster  |                           |   | <u>64,518</u>           | <u>-</u>                                 |
| Total U.S. Department of Health and Human Services                               |                           |   | <u>64,518</u>           | <u>-</u>                                 |
| Total Expenditures of Federal Awards   |                           |   | <u>\$ 11,178,230</u>    | <u>\$ 12,820</u>                         |

<sup>1</sup> Not included in the financial statements.

# TRACY UNIFIED SCHOOL DISTRICT

## LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2018

---

### ORGANIZATION

The Tracy Unified School District was established July 1, 1997 and consists of an area comprising approximately 425 square miles. The District operates eight K-5 schools, four K-8 schools, two middle, two high schools, two continuation high schools, a community day school, and adult educational classes.

### GOVERNING BOARD

| <u>MEMBER</u>  | <u>OFFICE</u>  | <u>TERM EXPIRES</u> |
|----------------|----------------|---------------------|
| Greg Silva     | President      | 2018                |
| Sondra Gilbert | Vice President | 20208               |
| Dan Arriola    | Clerk          | 2020                |
| Ted Guzman     | Member         | 2018                |
| Walter Gouveia | Member         | 2018                |
| James Vaughn   | Member         | 2018                |
| Jill Costa     | Member         | 2020                |

### ADMINISTRATION

|                       |  |
|-----------------------|--|
| Dr. Brian R. Stephens | Superintendent                                   |
| Dr. Casey Goodall     | Associate Superintendent of Business Services    |
| Dr. Sheila Harrison   | Associate Superintendent of Educational Services |
| Tammy Jalique         | Associate Superintendent of Human Resources      |
| Reed Call             | Director of Financial Services                   |

See accompanying note to supplementary information.

**TRACY UNIFIED SCHOOL DISTRICT**

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

|  | Amended<br>Second Period<br>Report | Annual<br>Report        |
|--|------------------------------------|-------------------------|
| Regular ADA  |                                    |                         |
| Transitional kindergarten through third                          | 3,631.60                           | 3,637.98                |
| Fourth through sixth   | 3,031.55                           | 3,033.34                |
| Seventh and eighth   | 1,998.95                           | 1,999.96                |
| Ninth through twelfth  | 5,491.99                           | 5,466.84                |
| Total Regular ADA  | <u>14,154.09</u>                   | <u>14,138.12</u>        |
| Extended Year Special Education                                  |                                    |                         |
| Transitional kindergarten through third                          | 3.82                               | 3.82                    |
| Fourth through sixth   | 3.71                               | 3.71                    |
| Seventh and eighth   | 0.94                               | 0.94                    |
| Ninth through twelfth  | 2.98                               | 2.98                    |
| Total Extended Year<br>Special Education                         | <u>11.45</u>                       | <u>11.45</u>            |
| Special Education, Nonpublic, Nonsectarian Schools               |                                    |                         |
| Transitional kindergarten through third                          | 6.96                               | 6.30                    |
| Fourth through sixth   | 6.28                               | 5.66                    |
| Seventh and eighth   | 2.21                               | 2.22                    |
| Ninth through twelfth  | 12.06                              | 11.01                   |
| Total Special Education,<br>Nonpublic, Nonsectarian<br>Schools   | <u>27.51</u>                       | <u>25.19</u>            |
| Extended Year Special Education, Nonpublic, Nonsectarian Schools |                                    |                         |
| Transitional kindergarten through third                          | 0.53                               | 0.53                    |
| Fourth through sixth   | 0.50                               | 0.50                    |
| Seventh and eighth   | 0.14                               | 0.14                    |
| Ninth through twelfth  | 0.81                               | 0.81                    |
| Total Special Education,<br>Nonpublic, Nonsectarian<br>Schools   | <u>1.98</u>                        | <u>1.98</u>             |
| Community Day School   |                                    |                         |
| Seventh and eighth   | 2.00                               | 2.00                    |
| Ninth through twelfth  | 25.96                              | 22.27                   |
| Total Community Day<br>School                                    | <u>27.96</u>                       | <u>24.27</u>            |
| Total ADA  | <u><u>14,222.99</u></u>            | <u><u>14,201.01</u></u> |

See accompanying note to supplementary information.

**TRACY UNIFIED SCHOOL DISTRICT**

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

---

| Grade Level   | 1986-87             | 2017-2018      | Number of Days       |                     | Status        |
|---------------|---------------------|----------------|----------------------|---------------------|---------------|
|               | Minutes Requirement | Actual Minutes | Traditional Calendar | Multitrack Calendar |               |
| Kindergarten  | 36,000              | 36,503         | 180                  | NA                  | In compliance |
| Grades 1 - 3  |                     |                |                      |                     |               |
| Grade 1       | 50,400              | 52,200         | 180                  | NA                  | In compliance |
| Grade 2       | 50,400              | 52,200         | 180                  | NA                  | In compliance |
| Grade 3       | 50,400              | 52,302         | 180                  | NA                  | In compliance |
| Grades 4 - 6  |                     |                |                      |                     |               |
| Grade 4       | 54,000              | 56,532         | 180                  | NA                  | In compliance |
| Grade 5       | 54,000              | 56,532         | 180                  | NA                  | In compliance |
| Grade 6       | 54,000              | 58,404         | 180                  | NA                  | In compliance |
| Grades 7 - 8  |                     |                |                      |                     |               |
| Grade 7       | 54,000              | 58,365         | 180                  | NA                  | In compliance |
| Grade 8       | 54,000              | 58,365         | 180                  | NA                  | In compliance |
| Grades 9 - 12 |                     |                |                      |                     |               |
| Grade 9       | 64,800              | 65,082         | 180                  | NA                  | In compliance |
| Grade 10      | 64,800              | 65,082         | 180                  | NA                  | In compliance |
| Grade 11      | 64,800              | 65,082         | 180                  | NA                  | In compliance |
| Grade 12      | 64,800              | 65,082         | 180                  | NA                  | In compliance |

See accompanying note to supplementary information.

**TRACY UNIFIED SCHOOL DISTRICT**

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

---

There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2018.

See accompanying note to supplementary information.

**TRACY UNIFIED SCHOOL DISTRICT**

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

|  | (Budget)          |                |                |                |
|--|-------------------|----------------|----------------|----------------|
|  | 2019 <sup>1</sup> | 2018           | 2017           | 2016           |
| GENERAL FUND <sup>3</sup>                            |                   |                |                |                |
| Revenues   | \$ 168,700,327    | \$ 159,981,049 | \$ 155,891,576 | \$ 154,906,485 |
| Other sources and transfers in                       | 10,000            | 16,865         | 35,878         | 13,448         |
| Total Revenues<br>and Other Sources                  | 168,710,327       | 159,997,914    | 155,927,454    | 154,919,933    |
| Expenditures   | 173,353,173       | 160,843,445    | 155,627,579    | 140,437,539    |
| INCREASE (DECREASE)<br>IN FUND BALANCE               | \$ (4,642,846)    | \$ (845,531)   | \$ 299,875     | \$ 14,482,394  |
| ENDING FUND BALANCE                                  | \$ 46,968,954     | \$ 51,611,800  | \$ 52,457,331  | \$ 52,157,456  |
| AVAILABLE RESERVES <sup>2</sup>                      | \$ 5,095,900      | \$ 4,705,300   | \$ 4,532,593   | \$ 4,116,367   |
| AVAILABLE RESERVES AS A<br>PERCENTAGE OF TOTAL OUTGO | 2.94%             | 3.00%          | 3.00%          | 3.00%          |
| LONG-TERM DEBT                                       | \$ 314,915,462    | \$ 318,171,564 | \$ 260,393,142 | \$ 250,588,240 |
| K-12 AVERAGE DAILY<br>ATTENDANCE AT P-2              | 14,121            | 14,223         | 14,421         | 14,713         |

The General Fund balance has decreased by \$545,656 over the past two years. The fiscal year 2018-19 budget projects a decrease of \$4,642,846 (approximately nine percent). For a district this size, the State recommends available reserves of at least 3 percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in two of the past three years, and anticipates incurring an operating deficit during the 2018-2019 fiscal year. Total long-term obligations have increased by \$67,583,324 over the past two years.

Average daily attendance has decreased by 490 over the past two years. A decrease of 102 ADA is anticipated during fiscal year 2018-2019.

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

<sup>2</sup> Available reserves consist of all unassigned fund balances including all amounts reserved for economic uncertainties contained within the General Fund.

**TRACY UNIFIED SCHOOL DISTRICT**

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

---

| <u>Name of Charter School</u> | <u>Included in<br/>Audit Report</u> |
|-------------------------------|-------------------------------------|
| Discovery Charter             | No                                  |
| Primary Charter               | No                                  |
| Millennium Charter            | No                                  |

See accompanying note to supplementary information.

**TRACY UNIFIED SCHOOL DISTRICT**

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

|  | <b>Child<br/>Development<br/>Fund</b> | <b>Cafeteria<br/>Fund</b> | <b>Special<br/>Reserve<br/>Capital Outlay<br/>Fund</b> |
|--|---------------------------------------|---------------------------|--|
| <b>ASSETS</b>                                  |                                       |                           |  |
| Deposits and investments                       | \$ 29,941                             | \$ 2,436,582              | \$ 547,636   |
| Receivables                                    | 21,297                                | 141,142                   | -  |
| Due from other funds                           | 160                                   | 935                       | -  |
| Stores inventories                             | -                                     | 95,449                    | -  |
| <b>Total Assets</b>                            | <u>\$ 51,398</u>                      | <u>\$ 2,674,108</u>       | <u>\$ 547,636</u>                                      |
| <b>LIABILITIES AND<br/>FUND BALANCES</b>       |                                       |                           |  |
| <b>Liabilities:</b>                            |                                       |                           |  |
| Accounts payable                               | \$ 5,369                              | \$ 92,044                 | \$ -   |
| Due to other funds                             | 7,383                                 | 325,617                   | -  |
| Unearned revenue                               | 10,554                                | -                         | -  |
| <b>Total Liabilities</b>                       | <u>23,306</u>                         | <u>417,661</u>            | <u>-</u>   |
| <b>Fund Balances:</b>                          |                                       |                           |  |
| Nonspendable                                   | -                                     | 95,448                    | -  |
| Restricted                                     | -                                     | -                         | -  |
| Assigned                                       | 28,092                                | 2,160,999                 | 547,636  |
| <b>Total Fund Balance</b>                      | <u>28,092</u>                         | <u>2,256,447</u>          | <u>547,636</u>   |
| <b>Total Liabilities and<br/>Fund Balances</b> | <u>\$ 51,398</u>                      | <u>\$ 2,674,108</u>       | <u>\$ 547,636</u>                                      |

See accompanying note to supplementary information.

**TRACY UNIFIED SCHOOL DISTRICT**

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

---

| <b>TSFFA<br/>Bond Interest<br/>and Redemption<br/>Fund</b> | <b>Bond<br/>Interest and<br/>Redemption<br/>Fund</b> | <b>Total<br/>Non-Major<br/>Governmental<br/>Funds</b> |
|--|--|---|
| \$ 2,663,121   | \$ 6,261,485   | \$ 11,938,765   |
| -  | -  | 162,439   |
| -  | 1,324,417  | 1,325,512   |
| -  | -  | 95,449  |
| <u>\$ 2,663,121</u>  | <u>\$ 7,585,902</u>                                  | <u>\$ 13,522,165</u>                                  |
|  |  |   |
| \$ -   | \$ -   | \$ 97,413   |
| -  | -  | 333,000   |
| -  | -  | 10,554  |
| <u>-</u>   | <u>-</u>   | <u>440,967</u>  |
|  |  |   |
| -  | -  | 95,448  |
| 2,663,121  | 7,585,902  | 10,249,023  |
| -  | -  | 2,736,727   |
| <u>2,663,121</u>   | <u>7,585,902</u>                                     | <u>13,081,198</u>                                     |
|  |  |   |
| <u>\$ 2,663,121</u>  | <u>\$ 7,585,902</u>                                  | <u>\$ 13,522,165</u>                                  |

See accompanying note to supplementary information.

**TRACY UNIFIED SCHOOL DISTRICT**

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

|  | <b>Child<br/>Development<br/>Fund</b> | <b>Cafeteria<br/>Fund</b> | <b>Special<br/>Reserve<br/>Capital Outlay<br/>Fund</b> |
|--|---------------------------------------|---------------------------|--|
| <b>REVENUES</b>  |                                       |                           |  |
| Federal sources  | \$ -                                  | \$ 4,109,581              | \$ -   |
| Other state sources  | 169,755                               | 301,763                   | -  |
| Other local sources  | 8,798                                 | 1,239,018                 | 7,013  |
| <b>Total Revenues</b>  | <u>178,553</u>                        | <u>5,650,362</u>          | <u>7,013</u>   |
| <b>EXPENDITURES</b>  |                                       |                           |  |
| Current  |                                       |                           |  |
| Instruction  | 133,599                               | -                         | -  |
| Instruction-related activities:                              |                                       |                           |  |
| Supervision of instruction                                   | 17,402                                | -                         | -  |
| School site administration                                   | 7,411                                 | -                         | -  |
| Pupil services:  |                                       |                           |  |
| Food services  | -                                     | 5,395,531                 | -  |
| Administration   |                                       |                           |  |
| All other administration                                     | 7,383                                 | 263,827                   | -  |
| Plant services   | -                                     | 147,055                   | -  |
| Facility acquisition and construction                        | -                                     | 26,496                    | -  |
| Debt service   |                                       |                           |  |
| Principal  | -                                     | -                         | -  |
| Interest and other   | -                                     | -                         | -  |
| <b>Total Expenditures</b>                                    | <u>165,795</u>                        | <u>5,832,909</u>          | <u>-</u>   |
| <b>Excess (Deficiency) of<br/>Revenues Over Expenditures</b> | <u>12,758</u>                         | <u>(182,547)</u>          | <u>7,013</u>   |
| <b>Other Financing Sources (Uses):</b>                       |                                       |                           |  |
| Other sources  | -                                     | -                         | -  |
| <b>Net Financing Sources (Uses)</b>                          | <u>-</u>                              | <u>-</u>                  | <u>-</u>   |
| <b>NET CHANGE IN FUND BALANCES</b>                           | 12,758                                | (182,547)                 | 7,013  |
| <b>Fund Balance - Beginning</b>                              | 15,334                                | 2,438,994                 | 540,623  |
| <b>Fund Balance - Ending</b>                                 | <u>\$ 28,092</u>                      | <u>\$ 2,256,447</u>       | <u>\$ 547,636</u>                                      |

See accompanying note to supplementary information.

**TRACY UNIFIED SCHOOL DISTRICT**

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

---

| <b>TSFFA<br/>Bond Interest<br/>and Redemption<br/>Fund</b> | <b>Bond<br/>Interest and<br/>Redemption<br/>Fund</b> | <b>Total<br/>Non-Major<br/>Governmental<br/>Funds</b> |
|--|--|---|
| \$ 815,612   | \$ -   | \$ 4,925,193  |
| -  | 41,983   | 513,501   |
| -  | 6,663,837  | 7,918,666   |
| <u>815,612</u>   | <u>6,705,820</u>                                     | <u>13,357,360</u>                                     |
| -  | -  | 133,599   |
| -  | -  | 17,402  |
| -  | -  | 7,411   |
| -  | -  | 5,395,531   |
| -  | -  | 271,210   |
| -  | -  | 147,055   |
| -  | -  | 26,496  |
| -  | 5,832,000  | 5,832,000   |
| 960,154  | 4,037,395  | 4,997,549   |
| <u>960,154</u>   | <u>9,869,395</u>                                     | <u>16,828,253</u>                                     |
| <u>(144,542)</u>   | <u>(3,163,575)</u>                                   | <u>(3,470,893)</u>                                    |
| -  | 1,324,417  | 1,324,417   |
| -  | 1,324,417  | 1,324,417   |
| (144,542)  | (1,839,158)  | (2,146,476)   |
| 2,807,663  | 9,425,060  | 15,227,674  |
| <u>\$ 2,663,121</u>  | <u>\$ 7,585,902</u>                                  | <u>\$ 13,081,198</u>                                  |

See accompanying note to supplementary information.

**TRACY UNIFIED SCHOOL DISTRICT**

**NOTE TO SUPPLEMENTARY INFORMATION  
JUNE 30, 2018**

---

**NOTE 1 - PURPOSE OF SCHEDULES**

**Schedule of Expenditures of Federal Awards**

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

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances, and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts consist primarily of funds that in the current period were recorded as revenues but were unspent. These unspent balances have been expended in the current period. In addition, funds have been recorded in the current period as revenues that have not been expended as of June 30, 2018. These unspent balances are reported as legally restricted ending balances within the General Fund.

|   | CFDA<br>Number(s) | Amount               |
|---|-------------------|----------------------|
|   | <u>          </u> | <u>          </u>    |
| Total Federal Revenues Statement of Revenues, Expenditures and Changes in Fund Balance: |                   | \$ 12,247,362        |
| Interest subsidy for Quality School Construction Bonds                                  | N/A               | (815,612)            |
| Medi-Cal Administrative Activities program revenue exceeded expenditures                | 93.778            | (61,350)             |
| Medi-Cal Billing Option program revenue exceeded expenditures                           | 10.555            | (708,282)            |
| Commodities is not included in recorded revenue but is included in expenditures         | 10.550            | 516,112              |
| Total Schedule of Expenditures of Federal Awards  |                   | <u>\$ 11,178,230</u> |

**Local Education Agency Organization Structure**

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

**Schedule of Average Daily Attendance (ADA)**

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

# TRACY UNIFIED SCHOOL DISTRICT

## NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2018

---

### **Schedule of Instructional Time**

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

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

### **Reconciliation of Annual Financial and Budget Report with Audited Financial Statements**

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

### **Schedule of Financial Trends and Analysis**

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

### **Schedule of Charter Schools**

This schedule lists all Charter Schools chartered by the School District, and displays information for each Charter School on whether or not the Charter School is included in the School District audit.

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

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

---

---

***INDEPENDENT AUDITOR'S REPORTS***

---

---



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

Governing Board  
Tracy Unified School District  
Tracy, 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 Tracy Unified School District (District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Tracy Unified School District's basic financial statements, and have issued our report thereon dated December 17, 2018.

***Emphasis of Matter - Change in Accounting Principles***

As discussed in Note 1 and Note 16 to the financial statements, in 2018, the District adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Tracy Unified School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Tracy Unified School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Tracy Unified 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2018-001 and 2018-002 that we consider to be significant deficiencies.

### **Compliance and Other Matters**

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

### **Tracy Unified School District's Response to Findings**

Tracy Unified School District's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Tracy Unified School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

*Vavrinek, Trine, Day & Co LLP*

Pleasanton, California  
December 17, 2018



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

Governing Board  
Tracy Unified School District  
Tracy, California

**Report on Compliance for Each Major Federal Program**

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

***Management's Responsibility***

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

***Auditor's Responsibility***

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

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

### ***Opinion on Each Major Federal Program***

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

### **Report on Internal Control Over Compliance**

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

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

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

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

*Vavinek, Trine, Day & Co LLP*

Pleasanton, California  
December 17, 2018



## INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board  
Tracy Unified School District  
Tracy, California

### **Report on State Compliance**

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

### ***Management's Responsibility***

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

### ***Auditor's Responsibility***

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

### ***Basis for Qualified Opinion on Attendance***

As described in the accompanying schedule of findings and questioned costs, Tracy Unified School District did not comply with requirements regarding unduplicated local control funding formula pupil counts as noted in 2018-002. Compliance with such requirements is necessary, in our opinion, for Tracy Unified School District to comply with the requirements applicable to that program.

***Qualified Opinion on Attendance***

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Tracy Unified School District complied, in all material respects, with the types of compliance requirements referred to above for the year ended June 30, 2018.

***Unmodified Opinion on Each of the Other Programs***

In our opinion, Tracy Unified School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2018, except as described in the Schedule of State Awards Findings and Questioned Costs section of the accompanying Schedule of Findings and Questioned Costs.

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

|   | Procedures<br>Performed |
|---|-------------------------|
| <b>LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS</b>                    |                         |
| Attendance  | Yes                     |
| Teacher Certification and Misassignments                                      | Yes                     |
| Kindergarten Continuance  | Yes                     |
| Independent Study   | Yes, see below          |
| Continuation Education  | Yes                     |
| Instructional Time  | Yes                     |
| Instructional Materials   | Yes                     |
| Ratios of Administrative Employees to Teachers                                | Yes                     |
| Classroom Teacher Salaries  | Yes                     |
| Early Retirement Incentive  | No, see below           |
| Gann Limit Calculation  | Yes                     |
| School Accountability Report Card   | Yes                     |
| Juvenile Court Schools  | No, see below           |
| Middle or Early College High Schools  | No, see below           |
| K-3 Grade Span Adjustment   | Yes                     |
| Transportation Maintenance of Effort  | Yes                     |
| Apprenticeship: Related and Supplemental Instruction                          | No, see below           |
| <b>SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND<br/>CHARTER SCHOOLS</b> |                         |
| Educator Effectiveness  | Yes                     |
| California Clean Energy Jobs Act  | Yes                     |
| After/Before School Education and Safety Program:                             |                         |
| General Requirements  | No, see below           |
| After School  | No, see below           |
| Before School   | No, see below           |

|   | <u>Procedures<br/>Performed</u> |
|---|---------------------------------|
| Proper Expenditure of Education Protection Account Funds              | Yes                             |
| Unduplicated Local Control Funding Formula Pupil Counts               | Yes                             |
| Local Control Accountability Plan                                     | Yes                             |
| Independent Study - Course Based                                      | No, see below                   |
| <br>  |                                 |
| <b>CHARTER SCHOOLS</b>  |                                 |
| Attendance  | No, see below                   |
| Mode of Instruction   | No, see below                   |
| Non Classroom-Based Instruction/Independent Study for Charter Schools | No, see below                   |
| Determination of Funding for Non Classroom-Based Instruction          | No, see below                   |
| Annual Instruction Minutes Classroom-Based                            | No, see below                   |
| Charter School Facility Grant Program                                 | No, see below                   |

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

The District did not offer an Early Retirement Incentive Program during the current year; therefore, we did not perform procedures related to the Early Retirement Incentive Program.

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

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

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

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

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

The District does not have any Charter Schools; therefore, we did not perform any procedures for Charter School Programs.

*Vavrinek, Trine, Day & Co LLP*

Pleasanton, California  
December 17, 2018

---

---

***SCHEDULE OF FINDINGS AND QUESTIONED COSTS***

---

---

**TRACY UNIFIED SCHOOL DISTRICT**

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

---

**FINANCIAL STATEMENTS**

|   |                   |
|---|-------------------|
| Type of auditor's report issued:                      | <u>Unmodified</u> |
| Internal control over financial reporting:            |                   |
| Material weakness identified?                         | <u>No</u>         |
| Significant deficiency identified?                    | <u>Yes</u>        |
| Noncompliance material to financial statements noted? | <u>No</u>         |

**FEDERAL AWARDS**

|   |                      |
|---|----------------------|
| Internal control over major Federal programs:   |                      |
| Material weakness identified?   | <u>No</u>            |
| Significant deficiency identified?  | <u>None reported</u> |
| Type of auditor's report issued on compliance for major Federal programs:   | <u>Unmodified</u>    |
| Any audit findings disclosed that are required to be reported in accordance with Section 200.516(a) of the Uniform Guidance | <u>No</u>            |

Identification of major Federal programs:

| <u>CFDA Number(s)</u> | <u>Name of Federal Program or Cluster</u> |
|-----------------------|---|
| <u>10.553; 10.555</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 auditor's report issued on compliance for State programs:                 | <u>Unmodified</u> |
| Unmodified for all programs except for the following program which was qualified: |                   |

| <u>Name of Program</u>   |
|--|
| <u>Unduplicated Local Control Funding Formula Pupil Counts</u> |

# TRACY UNIFIED SCHOOL DISTRICT

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

---

The following finding represents a significant deficiency related to the financial statements that is required to be reported in accordance with *Government Auditing Standards*. The finding has been coded as follows:

| <u>Five Digit Code</u> | <u>AB 3627 Finding Type</u> |
|------------------------|-----------------------------|
| 30000                  | Internal Control            |

**2018-001**      **Associated Student Body**  
***Significant Deficiency***

**Criteria or Specific Requirements**

Associated Student Body (ASB) funds are subject to greater loss due to the nature of the transactions and to the decentralization of the accounting process.

Management is responsible for establishing and maintaining an effective system of internal control to provide reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorizations and are properly recorded. Strong internal controls also include a well-designed segregation of duties.

**Condition**

During the review of ASB accounts at Poet Christian School, West High School and Stein High School, we noted conditions indicating that operating controls are not functioning at their optimum levels. In particular, we noted the following:

Poet Christian School

- 1 out of 12 cash collections reviewed was not deposited timely. Days between receipt and deposit was 26 days.
- 1 out of 1 fundraiser reviewed included calculation errors on the revenue potential form.

West High School

- 15 out of 15 daily student store sales reports reviewed had no reconciliation of cash collected to items sold. In addition, no overage/shortage explanations were documented.
- 3 out of 15 daily student store sales reports reviewed did not have the required two review signatures on the coin and currency count form.
- The one student store inventory count performed during the year, had no documented comparison to the physical inventory records and no signatures indicating who performed the count.
- 7 out of 13 fundraisers reviewed did not include overage/shortage explanations on the ticket sales form.
- 2 out of 3 cash collections reviewed were not deposited timely. Days between receipt and deposit were from 13 to 21 days.

Stein High School

- 1 out of 1 fundraiser reviewed had an incomplete revenue potential form. There was no documentation of actual revenue or projected expense or overage/ shortage explanations.

**Questioned costs**

None

# TRACY UNIFIED SCHOOL DISTRICT

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

---

### **Context**

All ASB collections at Poet Christian School, West High School and Stein High School.

### **Effect**

Without well-designed monitoring controls in all phases of ASB activities, opportunities exist for the intentional misuse of student funds that may go undetected.

### **Cause**

Cash custody controls were not operating in accordance with best practices.

Decentralized operations are dependent on the action of many individuals. Some individuals may not be aware of established procedures..

### **Recommendation**

To ensure the safeguarding of cash receipts, we recommend that District management remind site personnel of the best practice guideline for depositing cash collections. Ten days between receipt and deposit is considered timely. We also recommend that District management encourage site personnel to complete revenue potential forms for all fundraisers, complete an analysis of tickets sold to funds collected for all ticketed events and complete student store daily sales forms to verify completeness of cash receipts. The District should also consider periodically reviewing the progress and improvement of these issues.

### **Corrective Action Plan**

The District will review the ASB Accounting Manual with all ASB site personnel for best practices and procedures. We continue to make every effort for strong internal controls. The district will be going to sites for periodic reviews and on-going training.

**TRACY UNIFIED SCHOOL DISTRICT**

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

---

None reported.

# TRACY UNIFIED SCHOOL DISTRICT

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

---

The following finding represents a significant deficiency relating to State program laws and regulations. The finding has been coded as follows:

| <u>Five Digit Code</u> | <u>AB 3627 Finding Type</u> |
|------------------------|-----------------------------|
| 30000                  | Internal Control            |

**2018-002      Unduplicated Local Control Funding Formula Pupil Counts**  
*Significant Deficiency*

**Criteria or Specific Requirements**

Obtain a copy of the school’s certified “1.18 – FRPM / English Learner / Foster Youth – Student List” report. Select a representative sample, to achieve a high level of assurance, from the students indicated as only free or reduced priced meal eligible (FRPM) identified under the “NSLP Program” column (which means students are indicated as a “No” under the “Direct Certification” column, a “No” under the “Homeless” column, blank under the “Migrant Ed Program” column, a “No” under “Foster” column, and “181-Free” or “182-Reduced” under the “NSLP Program” column) and verify there is supporting documentation such as a Free and Reduced Price Meal (FRPM) eligibility application under a federal nutrition program, an alternative household income data collection form that indicates the student was eligible for the designation, or a direct certification list obtained from the county welfare department, or COE, that matches enrolled students against those children/households receiving CalFresh (or CALWORKs) benefits. If a student in the sample transferred to another LEA, the LEA may obtain the documentation from the LEA the student transferred to, or another student may be selected for the sample.

**Condition**

During the testing of unduplicated local control funding formula pupil counts, we identified four students whose English Learner designation, based on supporting documentation, had been properly Reclassified/Redesignated Fluent English Proficient (RFEP) in the District’s attendance system but continued to be reported on the certified “1.18-FRMP/PM/English Learner/Foster Youth – Student List as English Learner.

**Questioned Costs**

None. We verified the four students qualified under the FRMP designation.

**Context**

We reviewed 40 English Learner student files.

**Effect**

Students reclassified from the English Learner designation by the District are reported as English Learner on the certified “1.18-FRMP/PM/English Learner/Foster Youth – Student List.

**Cause**

Decentralized operations are dependent on the action of several individuals. Some individuals may not be aware of established procedures.

## TRACY UNIFIED SCHOOL DISTRICT

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

---

#### **Recommendation**

We recommend District management review policies and procedures with personnel responsible for monitoring the accurate reporting of student designations on the certified “1.18-FRMP/PM/English Learner/Foster Youth – Student List.

#### **Corrective Action Plan**

The District will provide training to individuals responsible for overseeing LCFF pupil counts at the district office and school sites to ensure they are following the requirements. The District will periodically review the progress and improvement of this issue.

# TRACY UNIFIED SCHOOL DISTRICT

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

---

Except as specified in previous sections of this report, summarized below is the current status of all audit findings reported in the prior year's schedule of financial statement findings.

### *Financial Statement Finding*

#### **2017-001 Code – 30000 Internal Control**

##### **Associated Student Body Significant Deficiency**

##### **Condition**

During the review of ASB accounts at Central Elementary School, George Kelly School, Earle E. Williams Middle School, and Tracy High School, we noted conditions indicating that operating controls are not functioning at their optimum levels. In particular, we noted the following:

##### Central Elementary School

- In 1 out of 1 fundraiser reviewed, a revenue potential form was not prepared.
- In 7 out of 8 cash receipt deposits reviewed, we were unable to reconcile the deposit slip amount to the bank statement deposit amount. The deposit slip amount was higher than the bank statement deposit for the seven deposits reviewed.
- There is no segregation of duties between the custody and recording of cash receipt transactions.
- In 2 out of 5 cash disbursements reviewed, purchase request forms were not approved prior to incurring the expenditure.
- In 5 out of 5 cash disbursements reviewed, there were not two signatures on the check.
- In 5 out of 5 cash disbursements reviewed, the ASB Bookkeeper signed the check.

##### George Kelly School

In 1 out of 4 ticketed events reviewed, a ticket sales report was not prepared.

In 1 out of 4 ticketed events reviewed, the ticket log amount did not reconcile to the cash deposited.

In 1 out of 3 fundraisers reviewed, a revenue potential form was not prepared.

There is no documented evidence of the Principal's bank reconciliation review.

##### Earle E. Williams Middle School

In 1 out of 3 fundraisers reviewed, a revenue potential form was not prepared.

##### Tracy High School

We reviewed a ticket inventory log identifying nine ticket rolls. When verifying existence of these ticket rolls, we noted 1 of 9 ticket rolls could not be found.

In one month's student store sales we reviewed all eight sales days for the month. In 8 out of 8 sales days reviewed, no daily sales report identifying items and amount sold was prepared.

The student store physical inventory count had differences between the count and the ASB Works system but there was nothing documenting the reasons for the variance.

In 3 out of 4 cash disbursements tested, there was no approval in the ASB meeting minutes.

# TRACY UNIFIED SCHOOL DISTRICT

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

---

### **Recommendation**

We recommend that District management encourage ASB site personnel to review the *FCMAT ASB Accounting Manual* to gain an understanding and implement best practices for cash receipt and disbursement management and procedures as well as cash controls for fundraising and ticketed events. The District should also consider periodically reviewing the progress and improvement of these issues.

### **Current Status**

Implemented.