Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

VALUE THE DIFFERENCE

December 15, 2017

To the Governing Board of
Tracy Unified School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Tracy Unified School District for the year ended June 30, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and the Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Tracy Unified School District are described in Note 1 to the financial statements. No new accounting policies were adopted during the year and the application of existing policies was not changed in 2017. We noted no transactions entered into by Tracy Unified School District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the Tracy Unified School District's financial statements were the calculation of Other Post Employment Benefits (OPEB) and pension liabilities.

> Management's estimate of the OPEB and pension liabilities are based on actuary studies performed. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

> As described in Note 13 to the financial statements, the disclosure of the defined benefit pension liability and related deferred inflows of resources and deferred outflows of resources required by the District's reporting of pension related information, are particularly sensitive. As disclosed in Note 13, a 1% increase or decrease in the discount rate has a material effect on the District's net pension liability.

The financial statement disclosures are neutral, consistent, and clear.

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Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management.

Management has determined that the effects of the uncorrected misstatements listed below are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Government wide	Equipment assets understated - playground equipment	$ 21,903
General fund	Accounts receivable understated - insurance proceeds	$1,148,215
Capital Facilities fund	Accounts receivable understated - developer fee not accrued	$ 65,000

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 15, 2017.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to Tracy Unified School District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Tracy Unified School District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to Management's Discussion and Analysis, Budgetary Comparison Schedules, Schedule of Pension Contributions, Schedule of Proportionate Share of Net Pension Liability, and Schedule of Postemployment Benefit Funding Progress, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the combining and individual non-major fund statements, Schedule of Expenditures of Federal Awards, and other supplementary information as listed in the table of contents of the financial statements, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

This information is intended solely for the information and use of the Governing Board, the California Department of Education, the State Controller's Office and management of Tracy Unified School District and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Vavrinek, Trine, Day & Co LLP

Pleasanton, California

TRACY UNIFIED SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT
JUNE 30, 2017

TRACY UNIFIED SCHOOL DISTRICT
TABLE OF CONTENTS
JUNE 30, 2017

FINANCIAL SECTION

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 (the District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and the *2016-2017 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 District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Tracy Unified School District, as of June 30, 2017, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, general fund-budgetary comparison schedule, schedule of other postemployment benefits funding progress, schedule of the District's proportionate share of net pension liability, and schedule of District contributions 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 15, 2017, 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.

Vavrinek, Trine, Day & Co LLP

Pleasanton, California
December 15, 2017

This section of Tracy Unified School District's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2017. 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.

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 Districts 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.

THE DISTRICT AS A WHOLE

Net Position

The District's net position was $200.4 million for the fiscal year ended June 30, 2017. Of this amount, ($59.0) 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	
	2017	**2016**
Current and other assets	$ 133.2	$ 135.8
Capital assets	324.8	321.6
Total Assets	**458.0**	**457.4**
Deferred outflows of resources	**30.2**	**26.8**
Current liabilities	10.6	9.0
Long-term liabilities	260.3	250.6
Total Liabilities	**270.9**	**259.6**
Deferred inflows of resources	**16.9**	**26.0**
Net position		
Net investment in capital assets	207.7	238.5
Restricted	51.7	36.4
Unrestricted	(59.0)	(76.3)
Total Net Position	**$ 200.4**	**$ 198.6**

The ($59.0) 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 – increased by $17.3 million.

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)	Governmental Activities	
	2017	**2016**
Revenues		
Program revenues:		
Charges for services	$ 4.8	$ 5.5
Operating grants and contributions	21.8	22.7
Capital grants and contributions	-	3.5
General revenues:		
Federal and State aid	102.1	103.7
Property taxes	42.8	40.5
Other general revenues	4.8	2.8
Total Revenues	**176.3**	**178.7**
Expenses		
Instruction	103.2	94.2
Instruction-related	21.9	19.2
Student support services	16.9	15.9
Administration	7.1	6.4
Maintenance and operations	16.4	15.1
Other	9.0	9.5
Total Expenses	**174.5**	**160.3**
Change in Net Position	**$ 1.8**	**$ 18.4**

Governmental Activities

As reported in the *Statement of Activities*, the cost of all of our governmental activities this year was $174.5 million. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only $42.8 million because the cost was paid by those who benefited from the programs ($4.8 million) or by other governments and organizations who subsidized certain programs with grants and contributions ($21.8 million). We paid for the remaining "public benefit" portion of our governmental activities with $102.1 million in Federal and State funds, and with $4.8 million of other revenues, like interest and general entitlements.

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, general 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)	Total Cost of Services		Net Cost of Services	
	2017	**2016**	**2017**	**2016**
Instruction	$ 103.2	$ 94.2	$ 91.0	$ 77.9
Instruction related activities	21.9	19.2	20.1	15.9
Pupil services	16.9	15.9	10.8	9.5
General administration	7.1	6.4	6.6	5.7
Plant services and construction	16.4	15.1	16.3	15.0
Ancillary and community services	1.6	1.2	1.5	1.3
Other	7.4	8.3	1.7	3.3
Totals	**$ 174.5**	**$ 160.3**	**$ 148.0**	**$ 128.6**

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of $124.7 million, which is a decrease of $4.4 million from last year (Table 4).

Table 4

(Amounts in millions)	Fund Balance	
	2017	**2016**
General	$ 52.4	$ 52.2
Cafeteria	2.4	2.9
Building	23.6	40.2
County School Facilities	11.3	1.4
Capital Facilities	22.1	18.7
Special Reserve-Capital Outlay	0.6	0.5
TSFFA Bond Interest and Redemption	2.9	2.9
Bond Interest and Redemption	9.4	10.3
Totals	**$ 124.7**	**$ 129.1**

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 increased $0.2 million due to an increase in one time mandated cost reimbursements.
- The Building Fund balance decreased $16.6 million primarily due to transfers to other facilities funds.
- The County School Facilities Fund increased $3.4 million due to transfers from the Building Fund.
- The Capital Facilities Fund increased $3.4 million due to transfers from the Building Fund.

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 28, 2016. (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 64).

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2017, the District had $324.8 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 $3.2 million or 1 percent, from last year (Table 5).

Table 5

(Amounts in millions)	Capital Assets	
	2017	**2016**
Land and construction in progress	$ 36.2	$ 44.8
Buildings and improvements	412.3	391.0
Equipment	17.9	17.5
Subtotal	466.4	453.3
Accumulated Depreciation	(141.6)	(131.7)
Net Capital Assets	**$ 324.8**	**$ 321.6**

This year's additions of $13.1 million included the completion of the South West Park School renovation, several deferred maintenance projects, technology equipment and vehicles.

As discussed in the Note 14 of the Financial Statements, the District has construction commitments in the amount of $30.0 million expected to be completed during the 2018 and beyond fiscal years.

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

Long-Term Obligations

At the end of this year, the District had $108.0 million in bonds outstanding versus $113.6 million last year, a decrease of 5 percent. The long-term obligations consisted of:

Table 6

(Amounts in millions)	Long Term Obligations 2017	Long Term Obligations 2016
General obligation bonds (financed with property taxes)	$ 108.0	$ 113.6
Bond premium, net	7.5	7.9
Other postemployment benefits	11.3	9.3
Pension liability	133.5	119.8
Totals	**$ 260.3**	**$ 250.6**

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 16 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.

SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2016-2017 ARE NOTED BELOW:

- Implemented successful Summer Bridge program.
- Completed Modernization of South/West Park School.
- Initiated solar parking lot projects at District Office, West High School, Kimball High School, and Williams Middle School.
- Began planning and construction of Central Elementary School.
- Remodeled West High School.
- Communicate and work effectively with Tracy Learning Center in the planning/modernization of their site, the Clover campus; initiated the beginning phase of construction.
- 137 Seniors received the State Seal of Biliteracy.
- 334 Seniors received the Golden State Seal Merit Diploma.
- 17 Seniors received an IB Diploma at Tracy High School.
- 135 students took at least one IB exam.
- 124 Tracy High School students and 221 West High School students took at least one AP exam.
- Tracy Unified School District showed slight gains in ELA on the Smarter Balanced Assessment and consistently performs higher than San Joaquin County as a whole.
- New instructional materials for English Language Arts K-12 were adopted.
- The PSAT test was administered district-wide in grades 8 and 10.
- A 7th grade student from Tracy Unified School District was one of the top two spellers in San Joaquin County and participated in the State Spelling Bee.
- 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.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In considering the District Budget for the 2017-2018 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 $2.1 million.

Expenditures are based on the following forecasts:

	Staffing Ratio	Enrollment
Grades kindergarten through third	21:1	3723.21
Grades four through eight	24:1	5101.44
Grades nine through twelve	24.5:1	5574.46

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.

TRACY UNIFIED SCHOOL DISTRICT

STATEMENT OF NET POSITION
JUNE 30, 2017

		Governmental Activities
ASSETS		
Deposits and investments	$	128,632,931
Receivables		3,961,148
Prepaid expenses		309,869
Stores inventories		271,611
Capital assets not depreciated		36,275,355
Capital assets, net of accumulated depreciation		288,609,672
Total Assets		458,060,586
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows of resources related to pensions		30,200,322
Total Deferred Outflows of Resources		30,200,322
LIABILITIES		
Accounts payable		8,028,641
Interest payable		2,165,203
Unearned revenue		395,581
Long-term obligations:		
Current portion of long-term obligations other than pensions		6,322,524
Noncurrent portion of long-term obligations other than pensions		120,563,460
Total Long-Term Obligations		126,885,984
Aggregate net pension liability		133,507,158
Total Liabilities		270,982,567
DEFERRED INFLOWS OF RESOURCES		
Deferred outflows of resources related to pensions		15,214,882
Deferred outflows of resources related to debt refunding		1,686,509
Total Deferred Inflows of Resources		16,901,391
NET POSITION		
Net investment in capital assets		207,642,725
Restricted for:		
Debt service		10,067,520
Capital projects		31,174,772
Educational programs		4,398,823
Other activities		6,034,644
Unrestricted		(58,941,534)
Total Net Position	$	200,376,950

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

TRACY UNIFIED SCHOOL DISTRICT

STATEMENT OF NET POSITION
JUNE 30, 2017

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

TRACY UNIFIED SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

		Program Revenues			Net (Expenses) Revenues and Changes in Net Position
Functions/Programs	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
Instruction	$ 103,253,182	$ 55,225	$ 12,104,190	$ 15,636	$ (91,078,131)
Instruction-related activities:					
Supervision of instruction	5,012,052	41,377	846,711	-	(4,123,964)
Instructional library, media, and technolog	5,423,347	337	91,363	-	(5,331,647)
School site administration	11,404,111	5,610	771,858	-	(10,626,643)
Pupil services:					
Home-to-school transportation	4,366,633	-	44,767	-	(4,321,866)
Food services	5,496,395	1,099,092	3,891,935	-	(505,368)
All other pupil services	7,109,279		1,139,198	-	(5,970,081)
General administration:					
All other general administration	7,193,329	49,347	581,737	-	(6,562,245)
Plant services	16,397,773	27,600	105,193	-	(16,264,980)
Ancillary services	1,346,540		39,020	-	(1,307,520)
Community services	169,165	-	-	-	(169,165)
Interest on long-term debt	5,203,254	-	-	-	(5,203,254)
Other outgo	2,183,920	3,490,731	2,229,108	-	3,535,919
Total Governmental-Type Activities	$ 174,558,980	$4,769,319	$ 21,845,080	$ 15,636	(147,928,945)

General revenues and subventions:	
Property taxes, levied for general purposes	32,727,323
Property taxes, levied for debt service	9,459,287
Taxes levied for other specific purposes	607,382
Federal and State aid not restricted to specific purposes	102,142,256
Interest and investment earnings	436,576
Interagency revenues	1,234
Miscellaneous	4,311,435
Subtotal, General Revenues	149,685,493
Change in Net Position	1,756,548
Net Position - Beginning	198,620,402
Net Position - Ending	$ 200,376,950

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

TRACY UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2017

	General Fund	Building Fund	Capital Facilities Fund
ASSETS			
Deposits and investments	$ 55,491,713	$ 25,891,560	$ 22,109,571
Receivables	3,323,214	80,121	55,254
Due from other funds	322,030	22,888	-
Prepaid expenses	309,869	-	-
Stores inventories	168,519	-	-
Total Assets	$ 59,615,345	$ 25,994,569	$ 22,164,825
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	$ 6,769,313	$ -	$ 4,606
Due to other funds	11,702	2,482,765	-
Unearned revenue	376,999	-	-
Total Liabilities	7,158,014	2,482,765	4,606
Fund Balances:			
Nonspendable	493,387	-	-
Restricted	4,398,823	23,511,804	22,160,219
Assigned	43,032,528	-	-
Unassigned	4,532,593	-	-
Total Fund Balance	52,457,331	23,511,804	22,160,219
Total Liabilities and Fund Balances	$ 59,615,345	$ 25,994,569	$ 22,164,825

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

TRACY UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2017

County School Facilities Fund	Non Major Governmental Funds	Total Governmental Funds
$ 10,036,650	$ 15,103,437	$ 128,632,931
12,300	490,259	3,961,148
2,482,765	12,770	2,840,453
-	-	309,869
-	103,092	271,611
$ 12,531,715	$ 15,709,558	$ 136,016,012
$ 1,114,518	$ 140,204	$ 8,028,641
22,888	323,098	2,840,453
-	18,582	395,581
1,137,406	481,884	11,264,675
-	103,092	596,479
11,394,309	12,232,723	73,697,878
-	2,891,859	45,924,387
-	-	4,532,593
11,394,309	15,227,674	124,751,337
$ 12,531,715	$ 15,709,558	$ 136,016,012

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, 2017

Total Fund Balance - Governmental Funds		**$ 124,751,337**
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:		
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	$ 466,426,849	
Accumulated depreciation is	(141,541,822)	
Net Capital Assets		324,885,027
Interest on long-term obligations is only recognized at the time it is due, however, the unmatured interest is recorded as a liability on the statement of net position.		(2,165,203)
Gains on debt refunding is not reported in governmental funds but relates to future periods and is reported as a deferred inflow of resources on the statement of net position.		(1,686,509)
Pension contributions subsequent to the measurement date; the difference between projected and actual earnings on pension plan investments; and the difference between expected and actual experience in the measurement of the total pension liability are not recognized on the modified accrual basis, but are recognized on the accrual basis as an adjustment to pension expense.		30,200,322
The difference between projected and actual earnings on pension plan investments; and the difference between expected and actual experience in the measurement of the total pension liability are not recognized on the modified accrual basis, but are recognized on the accrual basis as an adjustment to pension expense.		(15,214,882)
Net pension liability is not due and payable in the current period, and is not reported as a liability in the funds.		(133,507,158)
Long-term obligations are reported in the statement of net position and not on the fund statements and at year-end consist of:		
Bonds payable	$ (108,024,004)	
Bond premium, net of amortization	(7,402,557)	
Capital leases payable	(129,232)	
Compensated absences (vacations)	(3,786)	
Other postemployment benefits (OPEB)	(11,326,405)	
Total Long-Term Obligations		(126,885,984)
Total Net Position - Governmental Activities		**$ 200,376,950**

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, 2017

	General Fund	Building Fund	Capital Facilities Fund
REVENUES			
Local Control Funding Formula	$ 128,713,520	$ -	$ -
Federal sources	5,322,483	-	-
Other state sources	15,981,128	-	-
Other local sources	5,874,445	903,937	3,466,294
Total Revenues	155,891,576	903,937	3,466,294
EXPENDITURES			
Current			
Instruction	92,516,225	-	-
Instruction-related activities:			
Supervision of instruction	4,901,676	-	-
Instructional library, media and technology	5,175,882	-	-
School site administration	11,120,176	-	-
Pupil services:			
Home-to-school transportation	3,850,953	-	-
Food services	-	-	-
All other pupil services	6,957,820	-	-
General administration:			
All other general administration	6,535,668	-	-
Plant services	15,672,097	46,533	19,986
Facility acquisition and construction	5,186,187	-	-
Ancillary services	1,317,853	-	-
Community services	165,561	-	-
Other outgo	2,183,920	-	-
Debt service			
Principal	43,561	-	-
Interest and other	-	-	-
Total Expenditures	155,627,579	46,533	19,986
Excess (Deficiency) of Revenues Over Expenditures	263,997	857,404	3,446,308
Other Financing Sources (Uses):			
Transfers in	35,878	-	-
Other sources	-	-	-
Transfers out	-	(17,532,341)	-
Net Financing Sources (Uses)	35,878	(17,532,341)	-
NET CHANGE IN FUND BALANCES	299,875	(16,674,937)	3,446,308
Fund Balance - Beginning	52,157,456	40,186,741	18,713,911
Fund Balance - Ending	$ 52,457,331	$ 23,511,804	$ 22,160,219

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

County School Facilities Fund	Non Major Governmental Funds	Total Governmental Funds
$ -	$ -	$ 128,713,520
-	4,807,038	10,129,521
-	515,765	16,496,893
52,256	10,678,662	20,975,594
52,256	16,001,465	176,315,528
-	122,153	92,638,378
-	3,598	4,905,274
-	-	5,175,882
-	40,978	11,161,154
-	-	3,850,953
-	5,447,171	5,447,171
-	-	6,957,820
-	240,117	6,775,785
24,933	89,900	15,853,449
7,477,923	189,586	12,853,696
-	-	1,317,853
-	-	165,561
-	-	2,183,920
-	6,185,000	6,228,561
-	5,174,496	5,174,496
7,502,856	17,492,999	180,689,953
(7,450,600)	(1,491,534)	(4,374,425)
17,496,463	-	17,532,341
-	2,711	2,711
-	-	(17,532,341)
17,496,463	2,711	2,711
10,045,863	(1,488,823)	(4,371,714)
1,348,446	16,716,497	129,123,051
$ 11,394,309	$ 15,227,674	$ 124,751,337

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, 2017

Total Net Change in Fund Balance - Governmental Funds		**$ (4,371,714)**
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	$ (9,831,996)	
Capital outlays	13,120,310	
Net Expense Adjustment		3,288,314
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.		6,185,000
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.		43,561
Payment of capital assets 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 liabilities in the Statement of Net Position.		(161,271)
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.		575
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 statement of activities, unfunded Annual Required Contribution (ARC) is recognized as an expense, but is not recognized in the governmental funds.		(2,071,869)
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.		(1,285,850)
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.		(446,293)
Change in Net Position of Governmental Activities		**$ 1,756,548**

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

TRACY UNIFIED SCHOOL DISTRICT

FIDUCIARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2017

		Agency Fund
ASSETS		
Deposits and investments	$	1,227,815
Total Assets	$	1,227,815
LIABILITIES		
Due to student groups	$	1,227,815
Total Liabilities	$	1,227,815

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

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.

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 $10,812,388, $2,028,347, $10,147,349, $2,053,135, and $4,640,445, 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 approving a development *Education Code* Sections 17620-17626). 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).

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), or the 2006 State Schools Facilities Fund (Proposition ID) 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 expenditures for specified purposes and that compose a substantial portion of the inflows of the fund. Additional resources that are restricted, committed, or assigned to the purpose of the fund may also be reported in the fund.

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 restricted, committed, or assigned 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 that are restricted, committed, or assigned to 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.

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. The internal service fund is presented in a single column on the face of the proprietary fund statements.

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.

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.

Investments

Investments held at June 30, 2017, 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 $51,675,759 at June 30, 2017.

Prepaid Expenditures

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.

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.

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.

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 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.

Fund Balances – Governmental Funds

As of June 30, 2017, 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.

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.

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.

Budgetary Data

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

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

For budget purposes on behalf payments have not been included as revenue and expenditures as required under generally accepted accounting principles.

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. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.* The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement 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 Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement No. 43, and Statement No. 50, *Pension Disclosures*.

The District has implemented the provisions of this Statement as of June 30, 2017.

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures.* This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients;
- The gross dollar amount of taxes abated during the period;
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.

The District has implemented the provisions of this Statement as of June 30, 2017.

In December 2015, the GASB issued Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions.

Prior to the issuance of this Statement, the requirements of Statement No. 68 applied to the financial statements of all state and local governmental employers whose employees are provided with pensions through pension plans that are administered through trusts that meet the criteria in paragraph 4 of that Statement.

This Statement amends the scope and applicability of Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above.

The District has implemented the provisions of this Statement as of June 30, 2017.

In January 2016, the GASB issued Statement No. 80, *Blending Requirements for Certain Component Units - amendment of GASB Statement No. 14.* The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended*. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*.

The District has implemented the provisions of this Statement as of June 30, 2017.

In March 2016, the GASB issued Statement No. 82, *Pension Issues - An Amendment of GASB Statements No. 67, No. 68, and No. 73.* The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

The District has implemented the provisions of this Statement as of June 30, 2017, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

New Accounting Pronouncements

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension.* 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 requirements of this Statement are effective for financial statements for periods beginning after June 15, 2017. Early implementation is encouraged.

In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements.* The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively. Early implementation is encouraged.

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.

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

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation;
- Reporting amounts previously reported as goodwill and "negative" goodwill;
- Classifying real estate held by insurance entities;
- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost;
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus;
- Recognizing on-behalf payments for pensions or OPEB in employer financial statements;
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB;
- Classifying employer-paid member contributions for OPEB;
- Simplifying certain aspects of the alternative measurement method for OPEB;
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Early implementation is encouraged.

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 requirements of this Statement are effective for reporting periods beginning after June 15, 2017. 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.

NOTE 2 – DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2017, are classified in the accompanying financial statements as follows:

Governmental funds	$ 128,632,931
Fiduciary funds	1,227,815
Total Deposits and Investments	$ 129,860,746

Deposits and investments as of June 30, 2017, consist of the following:

Cash on hand and in banks	$ 4,104,422
Cash in revolving	15,000
Investments	125,741,324
Total Deposits and Investments	$ 129,860,746

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

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. The District has no specific limitations with respect to this metric.

Investment Type	Fair Value	Weighted Average Maturity in Days
County Pool	$ 125,741,324	490 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, 2017, approximately $1,000,000 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 investment pool.

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, 2017:

		Fair Value Measurements Using			
Investment Type	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Uncategorized
County Pool	$ 125,741,324	$ -	$ -	$ -	$ 125,741,324

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

NOTE 4 - RECEIVABLES

Receivables at June 30, 2017, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General Fund	Building Fund	Capital Facilities Fund	County School Facilities Fund	Non-Major Governmental Funds	Total
Federal Government						
Categorical aid	$ 1,227,153	$ -	$ -	$ -	$ 475,395	$ 1,702,548
State Government						
Principal apportionment	-	-	-	-	8,038	8,038
Categorical aid	290,331	-	-	-	-	290,331
Lottery	1,346,132	-	-	-	-	1,346,132
Other State	25,902	-	-	-	-	25,902
Local Government						
Interest	140,231	80,121	55,254	12,300	5,566	293,472
Other Local Sources	293,465	-	-	-	1,260	294,725
Total	$ 3,323,214	$ 80,121	$ 55,254	$ 12,300	$ 490,259	$ 3,961,148

NOTE 5 - CAPITAL ASSETS

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

	Balance July 1, 2016	Additions	Deductions	Balance June 30, 2017
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	$ 27,124,015	$ -	$ -	$ 27,124,015
Construction in Progress	17,667,755	6,185,173	14,701,588	9,151,340
Total Capital Assets Not Being Depreciated	44,791,770	6,185,173	14,701,588	36,275,355
Capital Assets Being Depreciated:				
Land Improvements	24,564,540	13,100	-	24,577,640
Buildings and Improvements	366,462,606	21,237,303	-	387,699,909
Furniture and Equipment	8,942,482	270,723	-	9,213,205
Vehicles	8,545,141	115,599	-	8,660,740
Total Capital Assets Being Depreciated	408,514,769	21,636,725	-	430,151,494
Total Capital Assets	453,306,539	27,821,898	14,701,588	466,426,849
Less Accumulated Depreciation:				
Land Improvements	13,706,885	975,481	-	14,682,366
Buildings and Improvements	105,194,496	7,958,723	-	113,153,219
Furniture and Equipment	5,410,879	498,457	-	5,909,336
Vehicles	7,397,566	399,335	-	7,796,901
Total Accumulated Depreciation	131,709,826	9,831,996	-	141,541,822
Governmental Activities Capital Assets, Net	$ 321,596,713	$ 17,989,902	$ 14,701,588	$ 324,885,027

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

Governmental Activities	
Instruction	8,598,238
Instructional library, media, and technology	225,985
Home-to-school transportation	431,852
Food services	99,913
All other general administration	270,623
Plant services	205,385
Total Depreciation Expenses Governmental Activities	$ 9,831,996

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, 2017, between major and non-major governmental funds are as follows:

	Due From				
Due To	General Fund	Building Fund	County County School Facilities Fund	Non-Major Governmental Funds	Total
General Fund	$ -	$ -	$ -	$ 11,702	$ 11,702
Building Fund	-	-	2,482,765	-	2,482,765
County School Facilities Fund	-	22,888	-	-	22,888
Non-Major Governmental Funds	322,030	-	-	1,068	323,098
Total	$ 322,030	$ 22,888	$ 2,482,765	$ 12,770	$ 2,840,453

All balances resulted from the time lag between the date that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transaction 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, 2017, consisted of the following:

	Transfer From		
Transfer To	General Fund	County School Facilities Fund	Total
Building Fund	$ 35,878	$ 17,496,463	$ 17,532,341
Total	$ 35,878	$ 17,496,463	$ 17,532,341

The Building Fund transferred to the General Fund to cover administrative and construction expenditure reimbursements.	$ 35,878
The Building Fund transferred to the County School Facilities Fund for construction expenditure reimbursements.	17,496,463
	$ 17,532,341

NOTE 7 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2017, consisted of the following:

	General Fund	Capital Facilities Fund	County School Facilities Fund	Non-Major Governmental Funds	Total
Vendor payables	$ 5,672,374	$ 4,606	$ 1,114,518	$ 112,330	$ 6,903,828
State principal apportionment	627,205	-	-	-	627,205
Salaries and benefits	469,734	-	-	27,874	497,608
Total	$ 6,769,313	$ 4,606	$ 1,114,518	$ 140,204	$ 8,028,641

NOTE 8 - UNEARNED REVENUE

Unearned revenue at June 30, 2017, consists of:

	General Fund	Non-Major Governmental Funds	Total
State categorical aid	$ 376,999	$ 18,582	$ 395,581

NOTE 9 - LONG-TERM OBLIGATIONS

Summary

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

	Balance July 1, 2016	Additions	Deductions	Balance June 30, 2017	Due in One Year
General obligation bonds	$ 113,621,793	$ 587,211	$ 6,185,000	$ 108,024,004	$ 5,832,000
Bond premium, net	7,853,377	-	450,820	7,402,557	450,820
Compensated absences	4,361	-	575	3,786	-
Capital leases	11,522	161,271	43,561	129,232	39,704
Other postemployment benefits	9,254,536	2,071,869	-	11,326,405	-
Net pension liability	119,842,651	13,664,507	-	133,507,158	-
	$ 250,588,240	$ 16,484,858	$ 6,679,956	$ 260,393,142	$ 6,322,524

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, 2016	Issued /Accreted	Redeemed	Bonds Outstanding June 30, 2017
July 2008	8/1/2033	2.75% - 10.00%	$ 17,000,000	$ 350,000	$ -	$ 350,000	$ -
April 2009	8/1/2033	3.00% - 6.00%	12,000,000	695,000	-	110,000	585,000
April 2011	8/1/2026	3.00%	16,000,000	13,990,000	-	630,000	13,360,000
April 2011	8/1/2041	6.60% - 8.54%	5,999,637	7,886,793	587,211	-	8,474,004
April 2014	8/1/2032	3.00% - 5.00%	27,460,000	25,890,000	-	885,000	25,005,000
February 2015	8/1/2029	2.00% - 5.00%	14,910,000	14,770,000	-	135,000	14,635,000
July 2015	8/1/2041	3.25% - 4.00%	9,100,000	9,100,000		415,000	8,685,000
July 2015	8/1/2040	4.00% - 5.00%	29,000,000	29,000,000		3,530,000	25,470,000
March 2016	8/1/2035	2.00% - 5.00%	11,940,000	11,940,000		130,000	11,810,000
				$ 113,621,793	$ 587,211	$ 6,185,000	$ 108,024,004

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
2018	$ 5,832,000	$ -	$ 4,579,845	$ 10,411,845
2019	2,738,000	-	4,389,883	7,127,883
2020	3,074,000	-	4,268,778	7,342,778
2021	3,496,000	-	3,585,477	7,081,477
2022	3,859,000	-	3,432,152	7,291,152
2023-2027	27,821,000	-	14,169,265	41,990,265
2028-2032	24,335,209	5,969,806	8,709,351	39,014,366
2033-2037	15,826,727	7,340,078	4,580,702	27,747,507
2038-2042	17,937,964	12,065,736	1,497,895	31,501,595
Total	104,919,900	$ 25,375,620	$ 49,213,348	$ 179,508,868
Accretions to date	3,104,104			
Total	$ 108,024,004			

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, 2017 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, 2017 was $12,837233. 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, 2017, amounted to $3,786.

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 June 30,	Lease Payment
2018	$ 39,704
2019	31,696
2020	31,696
2021	30,133
Total	133,229
Less: Amount Representing Interest	(3,997)
Present Value of Minimum Lease Payments	$ 129,232

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

Other Postemployment Benefits (OPEB) Obligation

The District's annual required contribution for the year ended June 30, 2017, was $2,888,383, and contributions made by the District during the year were $816,514. As of June 30, 2017, the net OPEB obligation was $11,326,405. See Note 11 for additional information regarding the OPEB obligation and the postemployment benefits plan.

Pension liability

The aggregate net pension liability for the District at June 30, 2017 amounted to $133,507,158. See Note 13 for additional information.

NOTE 10 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Building Fund	Capital Facilities Fund	County School Facilities Fund	Non-Major Governmental Funds	Total
Nonspendable						
Revolving cash	$ 15,000	$ -	$ -	$ -	$ -	$ 15,000
Stores inventories	168,519	-	-	-	103,092	271,611
Prepaid expenditures	309,868	-	-	-	-	309,868
Total Nonspendable	493,387	-	-	-	103,092	596,479
Restricted						
Legally restricted programs	4,398,823	-	-	-	-	4,398,823
Capital projects	-	23,511,804	22,160,219	11,394,309	-	57,066,332
Debt services	-	-	-	-	12,232,723	12,232,723
Total Restricted	4,398,823	23,511,804	22,160,219	11,394,309	12,232,723	73,697,878
Assigned						
Budget shortfalls	28,885,179	-	-	-	-	28,885,179
Textbooks and technology	4,000,000	-	-	-	-	4,000,000
Adult education	211,887	-	-	-	-	211,887
Child development program	-	-	-	-	15,334	15,334
Food programs	-	-	-	-	2,335,902	2,335,902
Capital projects	-	-	-	-	540,623	540,623
Deferred maintenance	3,580,316	-	-	-		3,580,316
Other	6,355,146	-	-	-	-	6,355,146
Total Assigned	43,032,528	-	-	-	2,891,859	45,924,387
Unassigned						
Reserve for economic uncertainties	4,532,593	-	-	-	-	4,532,593
Total Unassigned	4,532,593	-	-	-	-	4,532,593
Total	$ 52,457,331	$ 23,511,804	$ 22,160,219	$ 11,394,309	$ 15,227,674	$ 124,751,337

NOTE 11 - POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION

Plan Description

The Postemployment Benefits Plan (the "Plan") is a single-employer defined benefit healthcare plan administered by the Tracy Unified School District. The Plan provides medical, dental, and vision insurance benefits to eligible retirees and their spouses. Membership of the Plan consists of 94 retirees and beneficiaries currently receiving benefits and 1,215 active plan members and 2 trustees. Unfunded portion of annual required contributions (net OPEB obligation) is presented in the Statement of Net Position as a portion of long-term obligations.

	Certified	Classified	Management
Benefit types provided	Medical, dental and vision	Medical, dental and vision	Medical, dental and vision
Duration of Benefits	To age 65	To age 65	To age 65
Required Service	10 years*	10 years	10 years
Minimum Age	55	55	55
Dependent Coverage	Yes	Yes	Yes
District Contribution %	100%	100%	100%
District Cap	$8,482 per year**	$8,482 per year**	$8,162 per year**

* Equivalent full-time service.
**For those retiring prior to July 1, 2008, District pays full cost.

Contribution Information

The contribution requirements of plan members and the District are established and may be amended by the District, the District's bargaining units and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually through the agreements between the District, the District's bargaining units and the unrepresented groups. For fiscal year 2016-17, the District contributed $816,514 to the Plan, all of which was used for current premiums (approximately 28 percent of current year's annual required contributions.

Annual OPEB Cost and Net OPEB Obligation

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL) (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to the Plan:

Annual required contribution	$ 2,888,383
Annual OPEB cost (expense)	2,888,383
Contributions made	(816,514)
Increase in net OPEB obligation	2,071,869
Net OPEB obligation, beginning of year	9,254,536
Net OPEB obligation, end of year	$ 11,326,405

Trend Information

The trend information for actual contributions, annual OPEB cost, the percentage contributed and the net OPEB obligation was as follows:

Year Ended June 30	Actual Contribution	Annual OPEB cost	Percentage Contributed	Net OPEB Obligation
2015	$ 1,319,951	$ 2,738,938	48%	$ 7,148,222
2016	1,001,702	3,108,016	32%	9,254,536
2017	816,514	2,888,383	28%	11,326,405

Funded Status and Funding Progress

The schedule of funding progress presented as required supplementary information following the notes to the financial statements, will present multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. As of September 1, 2015, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits was $19,115,747, and the actuarial value of assets was $0, resulting in an UAAL of $19,115,747. The covered payroll (annual payroll of active employees covered by the Plan) was $94,775,879, and the ratio of the UAAL to the covered payroll was twenty percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment investment returns, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

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

In the September 1, 2015 actuarial valuation, the entry age normal method was used. The actuarial assumptions included a 4.5 percent investment rate of return (net of administrative expenses). The healthcare cost trend rate was 4 percent until reaching the ultimate trend. The UAAL is being amortized at a level percentage with payroll assuming a 2.75 percent annual increase in payroll. The remaining amortization period at September 1, 2015, was 25 years. The actuarial value of assets was not determined in this actuarial valuation. Currently, the District is considered to be an unfunded plan since there are no assets and retiree benefits are paid annually on a cash basis.

NOTE 12 - RISK MANAGEMENT

Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2017, the District 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.

NOTE 13 - 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, 2017, the District reported net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense for each of the above plans as follows

Pension Plan	Collective Net Pension Liability	Collective Deferred Outflows of Resources	Collective Deferred Inflows of Resources	Collective Pension Expense
CalSTRS	$ 98,505,968	$ 19,957,695	$ 13,751,866	$ 8,573,851
CalPERS	35,001,190	10,242,627	1,463,016	4,144,176
Total	$ 133,507,158	$ 30,200,322	$ 15,214,882	$ 12,718,027

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, 2015, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publically 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.

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, 2017, are summarized as follows:

	STRP Defined Benefit Program	
	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	12.58%	12.58%
Required state contribution rate	8.828%	8.828%

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, 2017, are presented above and the District's total contributions were $8,351,418.

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

At June 30, 2017, 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	$ 98,505,968
State's proportionate share of the net pension liability associated with the District	56,077,690
Total	$ 154,583,658

The net pension liability was measured as of June 30, 2016. 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, 2016 and June 30, 2015, respectively was 0.1218 percent and 0.1397 percent, resulting in a net decrease in the proportionate share of 0.0179 percent.

For the year ended June 30, 2017, the District recognized pension expense of $8,573,851. In addition, the District recognized pension expense and revenue of $5,170,491 for support provided by the State. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 8,351,418	$ -
Net change in proportionate share of net pension liability	3,775,100	11,348,925
Differences between projected and actual earnings on pension plan investments	7,831,177	-
Differences between expected and actual experience in the measurement of the total pension liability	-	2,402,941
Total	$ 19,957,695	$ 13,751,866

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 June 30,	Deferred Outflows/(Inflows) of Resources
2018	$ 170,850
2019	170,851
2020	4,552,290
2021	2,937,186
Total	$ 7,831,177

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2018	$ (1,575,018)
2019	(1,575,018)
2020	(1,575,018)
2021	(1,575,018)
2022	(1,575,016)
Thereafter	(2,101,678)
Total	$ (9,976,766)

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, 2015, and rolling forward the total pension liability to June 30, 2016. The financial reporting actuarial valuation as of June 30, 2015, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2015
Measurement date	June 30, 2016
Experience study	July 1, 2006 through June 30, 2010
Actuarial cost method	Entry age normal
Discount rate	7.60%
Investment rate of return	7.60%
Consumer price inflation	3.00%
Wage growth	3.75%

CalSTRS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are based on RP2000 series tables adjusted to fit CalSTRS experience.

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. Based on the model for CalSTRS consulting actuary's investment practice, a best estimate range was determined by assuming the portfolio is re-balanced annually and that the annual returns are lognormally distributed and independent from year to year to develop expected percentiles for the long-term distribution of annualized returns. The assumed asset allocation is based on Teachers' Retirement Board of the California State Teachers' Retirement System (board) policy for target asset allocation in effect on February 2, 2012, the date the current experience study was approved by the board. Best estimates of 10-year geometric real rates of return and the assumed asset allocation for each major asset class used as input to develop the actuarial investment rate of return are summarized in the following table:

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

Discount Rate

The discount rate used to measure the total pension liability was 7.60 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 (7.60 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:

Discount Rate	Liability
1% decrease (6.60%)	$ 141,772,304
Current discount rate (7.60%)	$ 98,505,968
1% increase (8.60%)	$ 62,571,464

<u>California Public Employees Retirement System (CalPERS)</u>

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, 2015 annual actuarial valuation report, Schools Pool Actuarial Valuation. This report and CalPERS audited financial information are publically available reports that can be found on the CalPERS website under Forms and Publications at:
https://www.calpers.ca.gov/page/forms-publications.

Benefits Provided

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

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

	STRP Defined Benefit Program	
	On or before	On or after
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%	6.000%
Required employer contribution rate	13.888%	13.888%

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, 2017, are presented above and the total District contributions were $3,050,759.

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

As of June 30, 2017, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling $35,001,190. The net pension liability was measured as of June 30, 2016. 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, 2016 and June 30, 2015, respectively was 0.1772 percent and 0.1750 percent, resulting in a net decrease in the proportionate share of 0.0077 percent.

For the year ended June 30, 2017, the District recognized pension expense of $4,144,176. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 3,050,759	$ -
Net change in proportionate share of net pension liability	255,422	411,439
Differences between projected and actual earnings on pension plan investments	5,431,059	-
Differences between expected and actual experience in the measurement of the total pension liability	1,505,387	-
Change of assumptions	-	1,051,577
Total	$ 10,242,627	$ 1,463,016

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 June 30,	Deferred Outflows/(Inflows) of Resources
2018	$ 761,778
2019	761,779
2020	2,490,044
2021	1,417,458
Total	$ 5,431,059

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 June 30,	Deferred Outflows/(Inflows) of Resources
2018	$ (180,205)
2019	235,100
2020	242,898
Total	$ 297,793

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, 2015, and rolling forward the total pension liability to June 30, 2016. The financial reporting actuarial valuation as of June 30, 2015, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2015
Measurement date	June 30, 2016
Experience study	July 1, 1997 through June 30, 2011
Actuarial cost method	Entry age normal
Discount rate	7. 65 %
Investment rate of return	7. 65 %
Consumer price inflation	2.75%
Wage growth	Varies by entry age and service

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first ten years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-term Expected Real Rate of Return
Global equity	51%	5.71%
Global debt securities	20%	2.43%
Inflation assets	6%	3.36%
Private equity	10%	6.95%
Real estate	10%	5.13%
Infrastructure and Forestland	2%	5.09%
Liquidity	1%	-1.05%

Discount Rate

The discount rate used to measure the total pension liability was 7.65 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:

Discount Rate	Net Pension Liability
1% decrease (6.65%)	$ 52,221,970
Current discount rate (7.65%)	$ 35,001,190
1% increase (8.65%)	$ 20,661,501

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 $5,170,491 (8.828 percent of annual payroll). Contributions are no longer appropriated in the annual Budget Act for the legislatively mandated benefits to CallPERS. 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. On behalf payments have been included in the budget amounts reported in the *General Fund Budgetary Comparison Schedule*.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

Construction Commitments

As of June 30, 2017, the District had the following commitments with respect to unfinished capital projects:

Capital Project	Remaining Construction Commitment	Expected Date of Completion
Demolition and Site Grading		
Delta Island School	$ 82,181	11/30/2017
Property Damage/Insurance		
Bohn Elementary School Fire	1,255,413	8/1/2018
West High School Fire Line Break	299,539	10/30/2017
West High School Upgrades to Gymnasium Complex	55,874	10/30/2017
Relocate Portable Classroom		
North Elementary School	98,508	8/8/2017
Proposition 39 Clean Energy Projects		
Window Replacement		
Bohn Elementary School	37,606	7/28/2017
Jacobson Elementary School	32,911	7/28/2017
Heating and Air Conditioner Replacement		
Bohn Elementary School	315,745	12/31/2017
Hirsch Elementary School	412,238	12/31/2017
Jacobson Elementary School	381,335	12/31/2017
Villalovoz Elementary School	405,139	12/31/2017
Kitchen Refrigeration Systems		
Williams Middle School	26,496	8/22/2017
Roofing/Decking Systems		
West High School-Second Floor Concrete Deck	115,740	8/7/2017
IGCG School-Roofing Replacement	50,075	7/25/2017
Exterior Painting		
West High School	87,000	9/1/2017
Hirsch Elementary School	3,460	9/1/2017
Paving Improvements		
McKinley Elementary School-Playground Hardcourt	10,813	8/22/2017
Kimball High School-Tennis Courts Repair	94,752	8/22/2017
Refurbishment		
West High School	564,571	9/1/2017
School Renovation		
Clover Site/Tracy Learning Center Charter School	24,790,425	12/31/2018
Central Elementary School	342,024	9/30/2017
	$ 29,461,845	

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, 2017.

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, 2017.

NOTE 15 - 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, 2017, the District made payment of $1,855,871 to San Joaquin County Schools Workers' Compensation and $516,965 to San Joaquin County Schools Data Processing joint powers authority.

NOTE 16 – 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.

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, 2017, 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, 2016* (Audited)
Total Assets	$ 2,051,835
Total Liabilities	6,757,468
Net Assets	$ (4,705,633)
Total Revenues and Other Sources	$ 1,678,014
Total Expenditures	270,820
Net Increase in Net Position	$ 1,407,194

* Most recent information available.

At June 30, 2017, the Agency had outstanding special tax bonds payable of $6,295,000 with maturities through 2021.

REQUIRED SUPPLEMENTARY INFORMATION

TRACY UNIFIED SCHOOL DISTRICT

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

	Budgeted Amounts		Actual	Variances - Positive (Negative)
	Original	Final	(GAAP Basis)	Final to Actual
REVENUES				
Local Control Funding Formula	$ 125,801,225	$ 127,428,520	$ 128,713,520	$ 1,285,000
Federal sources	5,572,984	5,177,937	5,322,483	144,546
Other state sources	12,005,664	15,456,162	15,981,128	524,966
Other local sources	3,705,676	5,775,822	5,874,445	98,623
Total Revenues[1]	147,085,549	153,838,441	155,891,576	2,053,135
EXPENDITURES				
Current				
Certificated salaries	67,557,417	70,693,918	70,896,252	(202,334)
Classified salaries	23,157,265	21,568,027	21,779,816	(211,789)
Employee benefits	32,837,286	31,281,855	31,407,483	(125,628)
Books and supplies	9,610,077	8,264,428	8,407,189	(142,761)
Services and operating expenditures	16,577,746	15,752,942	15,857,314	(104,372)
Capital outlay	766,381	1,459,729	5,292,161	(3,832,432)
Other outgo	1,764,974	1,922,674	1,943,803	(21,129)
Debt service				
Debt service - principal	45,449	43,561	43,561	-
Total Expenditures[1]	152,316,595	150,987,134	155,627,579	(4,640,445)
Excess (Deficiency) of Revenues Over Expenditures	(5,231,046)	2,851,307	263,997	(2,587,310)
Other Financing Sources (Uses):				
Transfers in	20,000	35,878	35,878	-
Net Financing Sources (Uses)	20,000	35,878	35,878	-
NET CHANGE IN FUND BALANCES	(5,211,046)	2,887,185	299,875	(2,587,310)
Fund Balance - Beginning	52,157,456	52,157,456	52,157,456	-
Fund Balance - Ending	$ 46,946,410	$ 55,044,641	$ 52,457,331	$ (2,587,310)

[1] 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, and are also included in the original and final General Fund budgets. In addition, intra fund transfers between these funds are eliminated in the Actual (GAAP Basis) column but are not eliminated in the Budget columns.

See accompanying note to required supplementary information.

TRACY UNIFIED SCHOOL DISTRICT

SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING PROGRESS
FOR THE YEAR ENDED JUNE 30, 2017

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Unprojected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
September 1, 2015	$ -	$ 19,115,747	$ 19,115,747	$ -	$ 94,775,879	20%
September 1, 2013	$ -	$ 19,121,077	$ 19,121,077	$ -	$ 83,492,500	23%
September 1, 2011	$ -	$ 20,324,156	$ 20,324,156	$ -	$ 80,046,826	25%

See accompanying note to required supplementary information.

TRACY UNIFIED SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2017

	2017	2016	2015
CalSTRS			
District's proportion of the net pension liability	0.1218%	0.1397%	0.1324%
District's proportionate share of the net pension liability	$ 98,505,968	$ 94,050,907	$ 77,395,022
State's proportionate share of the net pension liability associated with the District	56,077,690	49,742,562	46,734,456
Total	$ 154,583,658	$ 143,793,469	$ 124,129,478
District's covered - employee payroll	63,432,605	60,371,061	61,544,416
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	155%	156%	126%
Plan fiduciary net position as a percentage of the total pension liability	70%	74%	77%
CalPERS			
District's proportion of the net pension liability	0.1772%	0.1750%	0.1826%
District's proportionate share of the net pension liability	$ 35,001,190	$ 25,791,744	$ 20,733,500
District's covered - employee payroll	21,276,798	19,464,814	19,069,634
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	165%	133%	109%
Plan fiduciary net position as a percentage of the total pension liability	74%	79%	83%

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, 2017

	2017	2016	2015
CalSTRS			
Contractually required contribution	$ 8,351,418	$ 6,681,371	$ 5,352,373
Contributions in relation to the contractually required contribution	8,351,418	6,681,371	5,352,373
Contribution deficiency (excess)	$ -	$ -	$ -
District's covered - employee payroll	68,142,627	63,432,605	60,371,061
Contributions as a percentage of covered - employee payroll	12.26%	10.53%	8.87%
CalPERS			
Contractually required contribution	$ 3,050,759	$ 2,495,988	$ 2,278,186
Contributions in relation to the contractually required contribution	3,050,759	2,495,988	2,278,186
Contribution deficiency (excess)	$ -	$ -	$ -
District's covered - employee payroll	22,315,585	21,276,798	19,464,814
Contributions as a percentage of covered - employee payroll	13.67%	11.73%	11.70%

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

See accompanying note to required supplementary information.

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 1 - PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

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.

Schedule of Other Postemployment Benefits (OPEB) Funding Progress

This schedule is intended to show trends about the funding progress of the District's actuarially determined liability for postemployment benefits other than pensions.

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.

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.

Changes in Benefit Terms

There were no changes in benefit terms since the previous valuation for either CalSTRS and CalPERS.

Changes in Assumptions

The CalSTRS plan rate of investment return assumption was not changed from the previous valuation. The CalPERS plan rate of investment return assumption was changed from 7.50 percent to 7.65 percent since the previous valuation.

SUPPLEMENTARY INFORMATION

TRACY UNIFIED SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017

Federal Grantor/Pass-Through Grantor/Program	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	Passed Through To Subrecipients
U.S. DEPARTMENT OF EDUCATION				
Passed Through the California Department of Education:				
Adult Education Grants				
Adult Education - Adult Basic Ed & ESL	84.002A	14508	$ 40,177	$ -
Adult Education - English Literacy & Civics Education	84.002A	14109	760	-
Adult Education - Adult Secondary Education	84.002	13978	103,609	-
Subtotal			144,546	-
Special Education Grants Cluster				
Basic Local Assistance Entitlement, Part B, Section 611	84.027	13379	2,176,753	-
Basic Local Assistance Entitlement, Part B, Section 611, Private School ISP's	84.027	10115	13,821	-
Preschool Local Entitlement, Part B, Section 611	84.027A	13682	204,152	-
Preschool Grants, Part B, Section 619	84.173	13430	43,796	-
Subtotal Special Education Cluster			2,438,522	-
Vocational Educational Grants				
Title II - Part A, Improving Teacher Quality Local Grants	84.367	14341	242,451	7,679
Technology Secondary II C, Section 131	84.048	14894	131,715	-
Title III - Limited English Proficient Student Program	84.365	14346	356,414	-
Elementary and Secondary Education Act				
Title I - Part A, Basic Grants Low-Income and Neglected	84.010	14329	1,742,029	12,228
Indian Education	84.060	10011	22,215	-
Total U.S. Department of Education			5,077,892	19,907
U.S. DEPARTMENT OF AGRICULTURE				
Passed Through the California Department of Education:				
Child Nutrition Cluster				
National School Lunch Program	10.555	13524	2,760,585	-
Especially Needy Breakfast	10.553	13526	867,637	-
Subtotal Child Nutrition Cluster			3,628,222	-
Commodities [1]	10.565	13755	252,436	
Food Distribution Cluster				
Child and Adult Care Food Program	10.558	unknown	309,307	-
Total Food Distribution Cluster			309,307	-
Total U.S. Department of Agriculture			4,189,965	-
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Medicaid Cluster				
Medi-Cal Administrative Activities (MAA)	93.778	Not applicable	167,006	-
Medi-Cal Billing Option	93.778	Not applicable	57,454	-
Total Medicaid Cluster			224,460	-
Total U.S. Department of Health and Human Services			224,460	-
Total Expenditures of Federal Awards			$ 9,492,317	$ 19,907

[1] Not included in the financial statements.

See accompanying note to supplementary information.

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2017

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

MEMBER	OFFICE	TERM EXPIRES
Jill Costa	President	2020
Greg Silva	Vice President	2018
Sondra Gilbert	Clerk	2020
Ted Guzman	Member	2018
Walter Gouveia	Member	2018
James Vaughn	Member	2018
Dan Arriola	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, 2017

	Amended Second Period Report	Annual Report
Regular ADA		
Transitional kindergarten through third	3,718.49	3,721.24
Fourth through sixth	3,084.57	3,081.67
Seventh and eighth	2,006.39	2,000.76
Ninth through twelfth	5,552.49	5,536.23
Total Regular ADA	14,361.94	14,339.90
Extended Year Special Education		
Transitional kindergarten through third	5.16	5.16
Fourth through sixth	1.87	1.87
Seventh and eighth	0.65	0.65
Ninth through twelfth	6.36	6.36
Total Extended Year Special Education	14.04	14.04
Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	2.95	3.45
Fourth through sixth	5.75	5.82
Seventh and eighth	0.77	0.77
Ninth through twelfth	6.39	6.74
Total Special Education, Nonpublic, Nonsectarian Schools	15.86	16.78
Extended Year Special Education, Nonpublic, Nonsectarian Schools		
Fourth through sixth	0.82	0.82
Seventh and eighth	0.09	0.09
Ninth through twelfth	0.62	0.62
Total Special Education, Nonpublic, Nonsectarian Schools	1.53	1.53
Community Day School		
Seventh and eighth	3.05	2.67
Ninth through twelfth	24.18	22.08
Total Community Day School	27.23	24.75
Total ADA	14,420.60	14,397.00

See accompanying note to supplementary information.

TRACY UNIFIED SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2017

Grade Level	1986-87 Minutes Requirement	2016-2017 Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
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	58,364	180	NA	In compliance
Grades 7 - 8					
Grade 7	54,000	58,364	180	NA	In compliance
Grade 8	54,000	58,364	180	NA	In compliance
Grades 9 - 12					
Grade 9	64,800	65,161	180	NA	In compliance
Grade 10	64,800	65,161	180	NA	In compliance
Grade 11	64,800	65,161	180	NA	In compliance
Grade 12	64,800	65,161	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, 2017

Summarized below are the Form Debt and Form Asset reconciliations between the Unaudited Actual Financial Report, and the audited financial statements.

FORM DEBT	Form Debt
Total Liabilities, June 30, 2017, Unaudited Actuals	$ 250,588,240
Increase in:	
General Obligation Bonds	587,211
Capital Leases	161,271
Other Post Employment Benefits Obligation	2,071,869
Pension Obligation	13,664,507
Decrease in:	
General Obligation Bonds	(6,185,000)
Bond Premium, net	(450,820)
Compensated Absences	(575)
Capital Leases	(43,561)
Total Liabilities, June 30, 2017, Audited Financial Statement	$ 260,393,142

FORM ASSET	Form Asset
Total Capital Assets, June 30, 2017, Unaudited Actuals	$ 321,596,713
Increase in:	
Land Improvements	13,100
Buildings and Improvements	21,237,303
Furniture and Equipment	386,322
Accumulated Depreciation - Land Improvements	(975,481)
Accumulated Depreciation - Buildings and Improvements	(7,958,723)
Accumulated Depreciation - Furniture and Equipment	(897,792)
Decrease in:	
Construction in Progress	(8,516,415)
Total Capital Assets, June 30, 2017, Audited Financial Statement	$ 324,885,027

See accompanying note to supplementary information.

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

	(Budget) 2018[1]	2017	2016	2015
GENERAL FUND [3]				
Revenues	$ 160,110,247	$ 155,891,576	$ 154,906,485	$ 135,326,740
Other sources and transfers in	20,000	35,878	13,448	17,880
Total Revenues and Other Sources	160,130,247	155,927,454	154,919,933	135,344,620
Expenditures	169,401,524	155,627,579	140,437,539	130,333,316
INCREASE (DECREASE) IN FUND BALANCE	$ (9,271,277)	$ 299,875	$ 14,482,394	$ 5,011,304
ENDING FUND BALANCE	$ 43,186,054	$ 52,457,331	$ 52,157,456	$ 37,675,062
AVAILABLE RESERVES [2]	$ 5,082,046	$ 4,532,593	$ 4,116,367	$ 3,907,438
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO	3.00%	3.00%	3.00%	3.00%
LONG-TERM DEBT	$ 254,070,618	$ 260,393,142	$ 250,588,240	$ 185,541,432
K-12 AVERAGE DAILY ATTENDANCE AT P-2	14,190	14,421	14,713	15,044

The General Fund balance has increased by $14,782,269 over the past two years. The fiscal year 2017-18 budget projects a decrease of $9,271,277 (approximately eighteen 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).

Total long-term obligations have increased by $74,851,710over the past two years, primarily due to increasing Other Post Employment Benefit Plan costs and the recognition of Aggregate Net Pension Liabilities.

Average daily attendance has decreased by 623 over the past two years. A decrease of 231 ADA is anticipated during fiscal year 2017-18.

[1] Budget 2018 is included for analytical purposes only and has not been subjected to audit.

[2] Available reserves consist of all unassigned fund balances including all amounts reserved for economic uncertainties contained within the General Fund and the Special Reserve Fund for Other Than Capital Outlay Projects.

[3] General Fund amounts include activity related to the consolidation of the Adult Education Fund, the Deferred Maintenance Fund, and the Special Reserve Fund for Other Than Capital Outlay Projects.

See accompanying note to supplementary information.

TRACY UNIFIED SCHOOL DISTRICT

SCHEDULE OF CHARTER SCHOOLS
FOR THE YEAR ENDED JUNE 30, 2017

Name of Charter School	Included in Audit Report
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, 2017

	Child Development Fund	Cafeteria Fund	Special Reserve Capital Outlay Fund
ASSETS			
Deposits and investments	$ 40,237	$ 2,289,496	$ 540,981
Receivables	4,920	485,697	(358)
Due from other funds	-	12,770	-
Stores inventories	-	103,092	-
Total Assets	$ 45,157	$ 2,891,055	$ 540,623
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	$ 2,653	$ 137,551	$ -
Due to other funds	8,588	314,510	-
Unearned revenue	18,582	-	-
Total Liabilities	29,823	452,061	-
Fund Balances:			
Nonspendable	-	103,092	-
Restricted	-	-	-
Assigned	15,334	2,335,902	540,623
Total Fund Balance	15,334	2,438,994	540,623
Total Liabilities and Fund Balances	$ 45,157	$ 2,891,055	$ 540,623

See accompanying note to supplementary information.

TRACY UNIFIED SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2017

TSFFA Bond Interest and Redemption Fund	Bond Interest and Redemption Fund	Total Non-Major Governmental Funds
$ 2,807,663	$ 9,425,060	$ 15,103,437
-	-	490,259
-	-	12,770
-	-	103,092
$ 2,807,663	$ 9,425,060	$ 15,709,558
$ -	$ -	$ 140,204
-	-	323,098
-	-	18,582
-	-	481,884
-	-	103,092
2,807,663	9,425,060	12,232,723
-	-	2,891,859
2,807,663	9,425,060	15,227,674
$ 2,807,663	$ 9,425,060	$ 15,709,558

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, 2017

	Child Development Fund	Cafeteria Fund	Special Reserve Capital Outlay Fund
REVENUES			
Federal sources	$ -	$ 3,937,529	$ -
Other state sources	166,823	283,280	-
Other local sources	7,167	1,235,546	3,084
Total Revenues	173,990	5,456,355	3,084
EXPENDITURES			
Current			
Instruction	122,153	-	-
Instruction-related activities:			
Supervision of instruction	3,598	-	-
School site administration	40,978	-	-
Pupil services:			
Food services	-	5,447,171	-
General administration:			
All other general administration	7,154	232,963	-
Plant services	-	89,900	-
Facility acquisition and construction	-	189,586	-
Debt service			
Principal	-	-	-
Interest and other	-	-	-
Total Expenditures	173,883	5,959,620	-
Excess (Deficiency) of Revenues Over Expenditures	107	(503,265)	3,084
Other Financing Sources (Uses):			
Other sources	-	-	-
Net Financing Sources (Uses)	-	-	-
NET CHANGE IN FUND BALANCES	107	(503,265)	3,084
Fund Balance - Beginning	15,227	2,942,259	537,539
Fund Balance - Ending	$ 15,334	$ 2,438,994	$ 540,623

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, 2017

TSFFA Bond Interest and Redemption Fund	Bond Interest and Redemption Fund	Total Non-Major Governmental Funds
$ 869,509	$ -	$ 4,807,038
-	65,662	515,765
-	9,432,865	10,678,662
869,509	9,498,527	16,001,465
-	-	122,153
-	-	3,598
-	-	40,978
-	-	5,447,171
-	-	240,117
-	-	89,900
-	-	189,586
-	6,185,000	6,185,000
989,878	4,184,618	5,174,496
989,878	10,369,618	17,492,999
(120,369)	(871,091)	(1,491,534)
-	2,711	2,711
-	2,711	2,711
(120,369)	(868,380)	(1,488,823)
2,928,032	10,293,440	16,716,497
$ 2,807,663	$ 9,425,060	$ 15,227,674

See accompanying note to supplementary information.

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2017

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 previous 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, 2017. These unspent balances are reported as legally restricted ending balances within the General Fund.

	CFDA Number(s)	Amount
Total Federal Revenues Statement of Revenues, Expenditures and Changes in Fund Balance:		$ 10,129,521
Interest subsidy for Quality School Construction Bonds	N/A	(869,510)
Medi-cal Billing Option program revenue exceeded expenditures	93.778	(20,130)
Commodities is not included in recorded revenue but is included in expenditures.	10.550	252,436
Total Schedule of Expenditures of Federal Awards		$ 9,492,317

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.

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2017

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 (the District) as of and for the year ended June 30, 2017, 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 15, 2017.

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 a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2017-001 that we consider to be a significant deficiency.

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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 finding identified in our audit is 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 15, 2017

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND 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 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 (the District) major Federal programs for the year ended June 30, 2017. 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.

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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, 2017.

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.

Vavrinek, Trine, Day & Co LLP

Pleasanton, California
December 15, 2017

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 compliance with the types of compliance requirements as identified in the *2016-2017 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, 2017.

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 *2016-2017 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.

Unmodified Opinion

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, 2017.

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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 Performed
LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	Yes
Continuation Education	Yes, see below
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
Mental Health Expenditures	Yes
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After School Education and Safety Program:	
General Requirements	No, see below
After School	No, see below
Before School	No, see below
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
Immunizations	No, see below
CHARTER SCHOOLS	
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 any Juvenile Court Schools; therefore, we did not perform any procedures related to Juvenile Court Schools.

The District does not have any Middle or Early College High Schools; therefore, we did not perform any procedures related to Middle or Early College High Schools.

The District does not offer a Before or After School Education and Safety Program; therefore, we did not perform any procedures related to the Before or After 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 did not have any schools listed on the immunization assessment reports; therefore, we did not perform any related procedures.

The Charter Schools are independent of the District; therefore, we did not perform any procedures related to Charter Schools.

Vavrinek, Trine, Day & Co LLP

Pleasanton, California
December 15, 2017

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2017

FINANCIAL STATEMENTS	
Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness identified?	No
Significant deficiency identified?	Yes
Noncompliance material to financial statements noted?	No
FEDERAL AWARDS	
Internal control over major Federal programs:	
Material weakness identified?	No
Significant deficiency identified?	None reported
Type of auditor's report issued on compliance for major Federal programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section 200.516(a) of the Uniform Guidance	No

Identification of major Federal programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.027; 84.027A; 84.173	Special Education Program Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	$ 750,000
Auditee qualified as low-risk auditee?	Yes
STATE AWARDS	
Type of auditor's report issued on compliance for State programs:	Unmodified

FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017

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:

Five Digit Code	AB 3627 Finding Type
30000	Internal Control

2017-001 Associated Student Body
Significant Deficiency

Criteria or Specific Requirements
Associated Student Body (ASB) funds are subject to greater risk of 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 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:

<u>Central Elementary School</u>

- 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.

<u>George Kelly School</u>
- 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.

<u>Earle E. Williams Middle School</u>

- 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.

Questioned costs
None

Context
ASB cash receipts and disbursements at Central Elementary School, George Kelly School, Earle E. Williams Middle School and Tracy High School.

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

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

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.

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. Part of our on-going effort is to continue to partner with our outside consultant. However in the upcoming year, the District will be taking a more active role in going to the sites for periodic review and on-going training.

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017

None reported.

STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017

None reported.

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017

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

Five Digit Code	AB 3627 Finding Type
30000	Internal Control

2016-001 **Associated Student Body**
Significant Deficiency

Finding
During the audit of ASB accounts at Kimball High School, we noted conditions indicating that operating controls are not functioning at their optimum levels. In particular we noted:

- One cash disbursement was for faculty parking permits, a type of expenditure not typically paid for by ASB funds.
- One revenue potential form for a food sales fundraiser did not appear complete.

Recommendation
ASB and other club advisors are responsible for monitoring ASB and club activity and cash balances on a periodic basis. We recommend additional training be provided and that the ASB Bookkeeper, periodically review expenditures to determine if the types of disbursements are those typically spent by ASB funds.

Current Status
Implemented