LAGUNA BEACH UNIFIED SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

JUNE 30, 2017

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

Governing Board
Laguna Beach Unified School District
Laguna Beach, 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 Laguna Beach 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.

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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 Laguna Beach Unified School District, as of June 30, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 13, budgetary comparison schedule on page 59, schedule of other postemployment benefits funding progress on page 60, schedule of the District's proportionate share of net pension liability on page 61, and the schedule of District contributions on page 62, 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 Laguna Beach Unified School District's basic financial statements. The accompanying supplementary information such as the combining and individual nonmajor 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 November 15, 2017, on our consideration of the Laguna Beach 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 Laguna Beach 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 Laguna Beach Unified School District's internal control over financial reporting and compliance.

Vavrinek, Trine, Day + Co. LLP

Rancho Cucamonga, California
November 15, 2017

Laguna Beach Unified School District

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Email: jdixon@lbusd.org

Each student gains the knowledge, experience, world perspectives, and skills needed to become a lifelong learner and producer in a competitive and interconnected world.

This section of Laguna Beach 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, with comparative information for the year ending June 30, 2016. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

The District's financial status remains positive. General revenues from property taxes increased 6.0 percent over the prior year and represent 82.3 percent of revenue from governmental activities. Total cost of instruction-related activities increased 6.4 percent over the prior year and represents 70.7 percent of total expenses. Revenues exceeded expenditures for an increase in Net Position by 10.6 percent. Capital assets increased 19.9 percent, while long term commitments decreased by 5.3 percent. The District contracted several major capital improvements that will continue over multiple fiscal years. The projects are funded through reserves, not debt financing; therefore, capital assets are expected to continue to increase while existing debt is redeemed.

The District continued making contributions to the California Employers' Retiree Benefits Trust (CERBT) to fund Other Post-Employment Benefits (OPEB). Contributions and earnings through June 30, 2017 represented a 72 percent funded ratio.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the financial statements with a comparison of the District's budget for the year.

District-Wide Financial Statements

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

The two District-wide financial statements report the District's *net position* and how they have changed. Net position - the difference between the District's assets and liabilities - are one way to measure the District's financial health or *position*.

- Over time, increases or decreases in the District's net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District, it is necessary to consider additional non-financial factors such as changes in the District's condition of school buildings and other facilities.

In the District-wide financial statements, the District's activities are divided into two categories:

Governmental Activities

Most of the District's basic services are included here, such as regular and special education, pupil transportation, maintenance and operations, and administration. Property taxes finance most of these activities.

Fiduciary Activities

The District is the trustee, or fiduciary, for assets that belong to others, such as the student activity funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position. We exclude these activities from the District-wide financial statements because the District cannot use these assets to finance its operations.

Fund Financial Statements

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

- Some funds are required by State law.
- The District establishes other funds to control and manage money for particular purposes.

The District has two kinds of funds:

Governmental funds - Most of the District's basic services are included in governmental funds, which generally focus on (1) how *cash and other financial assets* can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed *short-term* view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the District-wide financial statements, we provide additional information with the governmental funds statements that explain the relationship (or differences) between them.

Fiduciary funds - The District is the trustee, or *fiduciary*, for assets that belong to others, such as scholarship funds and student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the District-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position

The District's net position was more on June 30, 2017, than it was in the prior year, an increase of 10.6 percent to $27,832,263. Of this amount, $(6,788,067) was unrestricted. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the School Board's ability to use those net positions for day-to-day operations. Our analysis below focuses on the net position (Table 1) and change in net position (Table 2) of the District's governmental activities.

Table 1

	Governmental Activities	
	2017	2016
Assets		
Current and other assets	$ 41,903,102	$ 46,963,120
Capital assets	55,668,128	46,425,131
Total Assets	**97,571,230**	**93,388,251**
Deferred Outflows of Resources	**10,816,166**	**9,526,485**
Liabilities		
Current liabilities	6,614,017	4,560,327
Long-term obligations	27,317,911	28,851,478
Aggregate net pension liability	44,182,990	37,120,462
Total Liabilities	**78,114,918**	**70,532,267**
Deferred Inflows of Resources	**2,440,215**	**7,222,392**
Net Position		
Net investment in capital assets	29,991,949	19,330,209
Restricted	4,628,381	4,247,906
Unrestricted	(6,788,067)	1,581,962
Total Net Position	**$ 27,832,263**	**$ 25,160,077**

The $(6,788,067) in unrestricted net position of governmental activities represents the accumulated results of all past years' operations. Unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - decreased by 529.1 percent ($(6,788,067) compared to $1,581,962).

Changes in Net Position

The District's total revenues were $61,677,896 (See Table 2), an increase of $678,236, or 1.1 percent. This increase was due primarily to property taxes. Table 2 takes the information from the Statement of Activities, and rearranges them slightly to indicate total revenues for the year. Property taxes account for most of the District's revenue, about 81 cents of every dollar received or recognized for accounting purposes.

Table 2

	Governmental Activities	
	2017	2016
Revenues		
Program revenues:		
Charges for services	$ 699,599	$ 725,910
Operating grants and contributions	5,179,266	4,813,494
General revenues:		
Property taxes	50,764,480	47,872,218
Other general revenues	5,034,551	7,588,038
Total Revenues	**61,677,896**	**60,999,660**
Expenses		
Instruction-related	41,687,067	39,198,353
Pupil services	6,329,375	5,926,903
General administration	4,345,546	4,143,913
Maintenance and operations	3,950,791	4,520,772
All other	2,692,931	2,847,517
Total Expenses	**59,005,710**	**56,637,458**
Change in Net Position	**$ 2,672,186**	**$ 4,362,202**

The total cost of all programs and services was $59,005,710. The District's expenses are predominantly related to educating and caring for students (81.4 percent). The purely administrative activities of the District accounted for 7.4 percent of total costs.

Total revenues for governmental activities surpassed expenses, increasing the net position by $2,672,186 over last year, contributing to the District's fiscal status.

Governmental Activities

Table 3 presents the costs of District activities within these six major categories: instruction-related activities; pupil services; pupil transportation; administration; maintenance and operations; and all other activities. The table also shows each activity's *net cost* (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden that was placed on the District's taxpayers by each of these functions.

Table 3

	2017		2016	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Instruction-related activities	$ 41,687,067	$ 37,912,566	$ 39,198,353	$ 35,727,279
Pupil services	4,656,212	3,008,219	4,271,060	2,650,286
Pupil transportation	1,673,163	1,672,028	1,655,843	1,655,843
Administration	4,345,546	4,217,196	4,143,913	4,046,721
Maintenance and operations	3,950,791	3,950,791	4,520,772	4,520,772
Other activities	2,692,931	2,366,045	2,847,517	2,497,153
Total	**$ 59,005,710**	**$ 53,126,845**	**$ 56,637,458**	**$ 51,098,054**

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. Some funds are required by State law and by bond covenants. The District establishes other funds to control and manage money for particular purposes (e.g. capital facilities) or to show that it is properly using certain revenues (e.g. cafeteria revenues).

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The strong financial performance of the District as a whole is reflected in its governmental funds as well. The main day-to-day operating fund of the District is the General Fund. The monies deposited into the General Fund represent the Federal, State, and local revenues available for the ongoing cost related to instruction, school and district administration, student transportation, and regular maintenance and operations. During 2016-2017, the General Fund had revenues and transfers of $58,326,788 and expenditures and transfers of $58,260,462 for an increase of $66,326 or less than one percent of expenditures. Excluding transfers to and from other funds of $(1,765,000), General Fund revenues exceeded expenditures by $1,831,326. The District achieves a financial balance between revenues and expenditures for its ongoing day-to-day operations.

The total of all governmental funds saw a decrease in fund balance. As the District completed the year, its governmental funds reported combined fund balance of $35,112,453. Expenditures for the General Fund and revenue for the Special Reserve Fund for Capital Outlay Projects reflect transfers of $1,200,000 for the Capital Improvement Plan, $900,000 for the Facilities Repair and Replacement Program, $165,000 to cover cafeteria program costs and $500,000 for the Aliso Property Reserve.

Table 4

	Balances and Activity			
	July 1, 2016	Revenues and Other Financing Sources	Expenditures and Other Financing Uses	June 30, 2017
General Fund	$ 23,533,731	$ 58,326,788	$ 58,260,462	$ 23,600,057
Special Reserve Fund for Capital Outlay Projects	16,472,298	2,213,329	9,633,811	9,051,816
Adult Education Fund	79,634	92,309	104,309	67,634
Cafeteria Fund	53,001	853,467	860,195	46,273
Capital Facilities Fund	236,387	178,475	131,760	283,102
Bond Interest and Redemption Fund	1,959,232	2,673,389	2,569,050	2,063,571
Total	**$42,334,283**	**$ 64,337,757**	**$ 71,559,587**	**$35,112,453**

General Fund Budgetary Highlights

Over the course of the year, the Board approves three versions of the operating budget. These budget versions are the following: Adopted Budget, First Interim, and Second Interim with Unaudited Actuals brought forward after the year-end closing is completed.

Budget adjustments to revenues for the year include:

- Adjustment for actual local property taxes revenue received;
- Adjustment to recognize the state's on-behalf STRS contributions in governmental funds; and
- Increased activity and accelerated timeline for major maintenance projects.

While the District's estimated budget for the General Fund anticipated that revenues and expenditures would result in the General Fund ending balance of $21,633,621, the actual ending balance was $23,600,057. This difference was predominantly due to property taxes, donations received and program carryover.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

See Note 5 to the financial statements for more detailed information on the District's capital assets.

Table 5

	Governmental Activities	
	2017	2016
Land and construction in process	$ 8,019,999	$ 2,453,481
Other capital assets, net of accumulated depreciation	47,648,129	43,971,650
Total	**$ 55,668,128**	**$ 46,425,131**

Long-Term Obligations

At year-end, the District had $27,317,911 in general obligation bonds and other long-term obligations, the majority of which is to be repaid through the use of tax collections. Detailed information regarding long-term obligations is presented in Note 9 to the financial statements.

Table 6

	Governmental Activities	
	2017	2016
General obligation bonds	$ 24,755,000	$ 26,090,000
Premium on issuance	2,306,093	2,515,737
Compensated absences	256,818	245,741
Total	**$ 27,317,911**	**$ 28,851,478**

Net Pension Liability (NPL)

At year-end, the District had a pension liability of $44,182,990.

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, local property values continued to remain stable. The only known circumstance that could have a significant adverse effect on the District's financial health in the near future would be the devaluation of property values.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jeff Dixon, Assistant Superintendent-Business Services, Laguna Beach Unified School District, 550 Blumont Street, Laguna Beach, California 92651.

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

STATEMENT OF NET POSITION
JUNE 30, 2017

		Governmental Activities
ASSETS		
Deposits and investments	$	39,025,966
Receivables		2,189,298
Stores inventories		8,143
Net OPEB assets		679,695
Capital assets:		
Land and construction in process		8,019,999
Other capital assets		75,979,978
Less: Accumulated depreciation		(28,331,849)
Total Capital Assets		55,668,128
Total Assets		97,571,230
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charge on refunding		1,384,914
Deferred outflows of resources related to pensions		9,431,252
Total Deferred Outflows of Resources		10,816,166
LIABILITIES		
Accounts payable		5,927,502
Accrued interest		503,063
Unearned revenue		183,452
Long-term obligations:		
Current portion of long-term obligations other than pensions		1,455,000
Noncurrent portion of long-term obligations other than pensions		25,862,911
Total Long-Term Obligations		27,317,911
Aggregate pension liability		44,182,990
Total Liabilities		78,114,918
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources related to pensions		2,440,215
NET POSITION		
Net investments in capital assets		29,991,949
Restricted for:		
Debt service		1,560,508
Capital projects		283,102
Educational programs		2,680,302
Other activities		104,469
Unrestricted		(6,788,067)
Total Net Position	$	27,832,263

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

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**	**Governmental Activities**
Governmental Activities:				
Instruction	$ 35,755,851	$ -	$ 3,424,677	$ (32,331,174)
Instruction-related activities:				
Supervision of instruction	1,189,517	4,791	150,105	(1,034,621)
Instructional library, media, and technology	1,370,113	-	90,514	(1,279,599)
School site administration	3,371,586	-	104,414	(3,267,172)
Pupil services:				
Home-to-school transportation	1,673,163	-	1,135	(1,672,028)
Food services	932,776	531,337	157,130	(244,309)
All other pupil services	3,723,436	2,909	956,617	(2,763,910)
General administration:				
Data processing	822,627	-	5,723	(816,904)
All other general administration	3,522,919	306	122,321	(3,400,292)
Plant services	3,950,791	-	-	(3,950,791)
Ancillary services	1,271,937	-	11,613	(1,260,324)
Interest on long-term obligations	1,128,057	-	-	(1,128,057)
Other outgo	292,937	160,256	155,017	22,336
Total Governmental Activities	$ 59,005,710	$ 699,599	$ 5,179,266	(53,126,845)

General revenues and subventions:	
Property taxes, levied for general purposes	48,100,788
Property taxes, levied for debt service	2,663,692
Federal and State aid not restricted to specific purposes	2,308,376
Interest and investment earnings	321,968
Miscellaneous	2,404,207
Subtotal, General Revenues	55,799,031
Change in Net Position	2,672,186
Net Position - Beginning	25,160,077
Net Position - Ending	$ 27,832,263

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

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2017

	General Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total Governmental Funds
ASSETS				
Deposits and investments	$ 23,998,737	$ 12,448,349	$ 2,578,880	$ 39,025,966
Receivables	2,150,477	10,739	28,082	2,189,298
Due from other funds	108,895	-	2,876	111,771
Stores inventories	-	-	8,143	8,143
Total Assets	$ 26,258,109	$ 12,459,088	$ 2,617,981	$ 41,335,178
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	$ 2,471,724	$ 3,298,377	$ 157,401	$ 5,927,502
Due to other funds	2,876	108,895	-	111,771
Unearned revenue	183,452	-	-	183,452
Total Liabilities	2,658,052	3,407,272	157,401	6,222,725
Fund Balances				
Nonspendable	50,000	-	9,438	59,438
Restricted	2,680,302	-	2,451,142	5,131,444
Committed	16,133,087	9,051,816	-	25,184,903
Assigned	1,823,644	-	-	1,823,644
Unassigned	2,913,024	-	-	2,913,024
Total Fund Balances	23,600,057	9,051,816	2,460,580	35,112,453
Total Liabilities and Fund Balances	$ 26,258,109	$ 12,459,088	$ 2,617,981	$ 41,335,178

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

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

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

Total Fund Balances - Governmental Funds		**$ 35,112,453**
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 the following	$ 83,999,976	
Accumulated depreciation is the following	(28,331,848)	
Total Capital Assets		55,668,128
The District has refunded General Obligations Bonds. The difference between the amounts that were sent to escrow agents for the payment of the old debts and the actual remaining debt obligations will be amortized as an adjustment to interest expense over the remaining life of the refunded debt. This balance represents the unamortized deferred charges on refunding remaining as of June 30, 2017.		1,384,914
Expenditures relating to postemployment benefits were recognized on the modified accrual basis, but contributions made in excess of the annual required contribution (ARC) should be recorded as an asset in the government-wide financial statements.		679,695
Deferred outflows of resources related to pensions represent a consumption of net position in a future period and is not reported in the District's funds. Deferred outflows of resources related to pensions at year-end consist of:		
Pension contributions subsequent to measurement date	3,711,068	
Net change in proportionate share of net pension liability	1,008,002	
Difference between projected and actual earnings on pension plan investments	4,277,420	
Differences between expected and actual experience in the measurement of the total pension liability	434,762	
Total Deferred Outflows of Resources Related to Pensions		9,431,252
Deferred inflows of resources related to pensions represent an acquisition of net position that applies to a future period and is not reported in the District's funds. Deferred inflows of resources related to pensions at year-end consist of:		
Net change in proportionate share of net pension liability	(1,305,306)	
Differences between expected and actual experience in the measurement of the total pension liability	(831,209)	
Changes in assumptions	(303,700)	
Total Deferred Inflows of Resources Related to Pensions		(2,440,215)

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

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

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

Net pension liability is not due and payable in the current period, and is not reported as a liability in the funds.		$ (44,182,990)
In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. On the government-wide financial statements, unmatured interest on long-term obligations is recognized when it is incurred.		(503,063)
Long-term obligations at year-end consist of the following:		
General obligation bonds	$ 24,755,000	
Premium on issuance	2,306,093	
Compensated absences	256,818	
Total Long-Term Obligations		(27,317,911)
Total Net Position - Governmental Activities		**$ 27,832,263**

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

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

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

	General Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total Governmental Funds
REVENUES				
Local Control Funding Formula	$ 49,231,366	$ -	$ -	$ 49,231,366
Federal sources	914,253	-	148,082	1,062,335
Other State sources	3,924,282	-	105,237	4,029,519
Other local sources	3,756,887	113,329	3,379,321	7,249,537
Total Revenues	57,826,788	113,329	3,632,640	61,572,757
EXPENDITURES				
Current				
Instruction	34,131,680	-	30,707	34,162,387
Instruction-related activities:				
Supervision of instruction	1,181,311	-	-	1,181,311
Instructional library, media, and technology	1,262,802	-	73,602	1,336,404
School site administration	3,183,487	-	-	3,183,487
Pupil services:				
Home-to-school transportation	1,671,111	-	-	1,671,111
Food services	65,140	-	860,195	925,335
All other pupil services	3,528,946	-	-	3,528,946
General administration:				
Data processing	815,741	-	-	815,741
All other general administration	3,478,158	-	-	3,478,158
Plant services	4,338,497	-	-	4,338,497
Facility acquisition and construction	784,523	9,133,811	131,760	10,050,094
Ancillary services	1,261,129	-	-	1,261,129
Other outgo	292,937	-	-	292,937
Debt service				
Principal	-	-	1,335,000	1,335,000
Interest and other	-	-	1,234,050	1,234,050
Total Expenditures	55,995,462	9,133,811	3,665,314	68,794,587
Excess (Deficiency) of Revenues Over Expenditures	1,831,326	(9,020,482)	(32,674)	(7,221,830)
Other Financing Sources (Uses):				
Transfers in	500,000	2,100,000	165,000	2,765,000
Transfers out	(2,265,000)	(500,000)	-	(2,765,000)
Net Financing Sources (Uses)	(1,765,000)	1,600,000	165,000	-
NET CHANGE IN FUND BALANCES	66,326	(7,420,482)	132,326	(7,221,830)
Fund Balances - Beginning	23,533,731	16,472,298	2,328,254	42,334,283
Fund Balances - Ending	$ 23,600,057	$ 9,051,816	$ 2,460,580	$ 35,112,453

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

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

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

Total Net Change in Fund Balances - Governmental Funds		**$ (7,221,830)**
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 expenses in the Statement of Activities.		
This is the amount by which capital outlay exceeds depreciation in the period.		
Capital outlays	$ 11,805,804	
Depreciation expense	(2,526,963)	
New Expense Adjustment		9,278,841
Loss on disposal of capital assets is reported in the government-wide Statement of Net Position, but is not recorded in the governmental funds.		(35,844)
In the Statement of Activities, certain operating expenses - compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for this item is measured by the amount of financial resources used (essentially, the amounts actually paid). This year, vacation used was less than the amounts earned by $11,077.		11,077
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.		(864,769)
Repayment of debt principal is an expenditure in the governmental funds, but it reduces long-term obligations in the Statement of Net Position and does not affect the Statement of Activities:		
General obligation bonds		1,335,000

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

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

Under the modified basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the Statement of Activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. This adjustment combines the net changes of the following balances:		
Amortization of debt premium	$ 209,644	
Amortization of deferred charge on refunding	(125,901)	
		$ 83,743
Interest on long-term obligations in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.		96
Change in Net Position of Governmental Activities		**$ 2,672,186**

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

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

FIDUCIARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2017

		Agency Funds
ASSETS		
Deposits and investments	$	1,062,171
Stores inventories		3,122
Total Assets	$	1,065,293
LIABILITIES		
Due to student groups	$	160,110
Due to bond holders		905,183
Total Liabilities	$	1,065,293

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Laguna Beach Unified School District was organized in 1936 under the laws of the State of California. The District operates under a locally-elected five-member Board form of government and provides educational services to grades kindergarten through twelve as mandated by the State and/or Federal agencies. The District operates two elementary schools, one middle school, one high school, and an adult education program.

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 the Laguna Beach Unified School District, this includes the 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 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. 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 is 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 benefit of the District.

Community Facility District (CFD) No. 98-1 has a financial and operational relationship which meets the reporting entity definition criteria of GASB Statement No. 14, *The Financial Reporting Entity*, for the inclusion of the CFD as a component unit of the District. Accordingly, the financial activities of the CFD have been included in the financial statements of the District. The financial statements present the CFD's financial activity within the Agency Fund. Debt instruments issued by the CFD do not represent liabilities of the District or component unit and are not included in the District-wide Financial Statements.

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.

A fund currently defined as a special revenue fund in the California State Accounting Manual (CSAM) does not meet the GASB Statement No. 54 special revenue fund definition. Specifically, Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects is not substantially composed of restricted or committed revenue sources. While this fund is authorized by statute and will remain open for internal reporting purposes, this fund functions effectively as an extension of the General Fund, and accordingly has been combined with the General Fund for presentation in these audited financial statements.

As a result, the General Fund reflects an increase in assets, fund balance and revenues of $16,133,088, $16,133,088 and $121,213, respectively, as of June 30, 2017.

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).

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.

Adult Education Fund The Adult Education Fund is used to account separately for federal, State, and local revenues for adult education programs and is to be expended for adult education purposes only.

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).

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 than those financed by proprietary funds and trust funds).

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).

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).

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.

Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student body activities (ASB) and funds held for the Community Facilities District No. 98-1. Such funds have no equity accounts since all assets are due to individuals or entities at some future time.

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 financial statement of activities presents a comparison between direct expenses and program revenues for each governmental function, and excludes fiduciary activity. 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. Eliminations have been made to minimize the double counting of internal activities.

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 financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column.

Governmental Funds All governmental funds are accounted for using a 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 balances 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 reconciliation with brief explanations to better identify the relationship between the government-wide financial statements and the statements for the governmental funds on a modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

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 requirements. 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 combined 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.

Stores Inventories

Inventories consist of expendable food and supplies held for consumption. Inventories are stated at cost, on the first-in, first-out basis. The costs of inventory items are recorded as expenditures in the governmental type funds and expenses in the fiduciary funds.

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the District. The District maintains a capitalization threshold of $5,000. 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 general capital assets are 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.

Capital assets in the proprietary funds are capitalized in the fund in which they are utilized. The valuation basis for proprietary fund capital assets is the same as those used for the capital assets of governmental funds.

Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 25 to 50 years; improvements, 20 to 50 years; equipment, 5 to 20 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 statement of net position, except for the net residual amounts due between governmental and fiduciary funds, which are presented as accounts receivables and payables.

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 the amount that is normally expected to be paid using expendable available financial resources. These amounts are recorded in the accounts payable 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 certificated 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 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 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 fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases, and long-term loans are recognized as liabilities in the governmental fund financial statements when due.

Debt Issuance Costs, Premiums, and Discounts

In the government-wide financial statements, long-term obligations are reported as liabilities in the applicable governmental activities 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.

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 the deferred charge on refunding of debt and 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 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 resolutions or budget adoption 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 assistant 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 has provided otherwise in its commitment or assignment actions.

Minimum Fund Balance Policy

The governing board adopted a minimum fund balance policy for the General Fund in order to protect the district against revenue shortfalls or unpredicted on-time expenditures. The policy requires a Reserve for Economic Uncertainties consisting of unassigned amounts equal to no less than four 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. The District has related debt outstanding as of June 30, 2017. 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. The government-wide financial statements report $4,628,381 of restricted net position.

Interfund Activity

Transfers between governmental and fiduciary 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 and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

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 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 March 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 and become delinquent after November 1. The County of Orange bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

Change 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 activities	$ 39,025,966
Fiduciary funds	1,062,171
Total Deposits and Investments	$ 40,088,137

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

Cash on hand and in banks	$ 445,084
Cash in revolving	51,295
Investments	39,591,758
Total Deposits and Investments	$ 40,088,137

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 schedule 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 holding the majority of its investments in the Orange County Investment Pool. The pool purchases shorter term investments and attempts to time cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuation is provided by the following schedule that shows the distribution of the District's investment by maturity:

Investment Type	Reported Amount	Average Maturity in Days
US Bank Money Market Fund 5 CT	$ 905,183	1
Orange County Treasury Investment Pool	38,686,575	339
Total	$ 39,591,758	

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investments in the county pool are not required to be rated. However, as of the year-end, the Orange County Treasury Investment Pool and the US Bank Money Market Fund 5 CT reflected an Aaa rating by Moody's Investor Service.

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, the District's bank balances were within the federally insured limits.

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 Orange County Treasury Investment Pool and US Bank Money Market Fund 5 CT are not measured using the input levels above because the District's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at $1.00 net asset value per share.

NOTE 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	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total Governmental Activities
Federal Government				
Categorical aid	$ 560,289	$ -	$ 26,200	$ 586,489
State Government				
Categorical aid	142,650	-	1,514	144,164
Lottery	277,715	-	-	277,715
SELPA	788,094	-	-	788,094
Local Government				
Interest	23,353	10,739	368	34,460
Other Local Sources	358,376	-	-	358,376
Total	$ 2,150,477	$ 10,739	$ 28,082	$ 2,189,298

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	$ 1,173,934	$ -	$ -	$ 1,173,934
Construction in process	1,279,547	6,846,065	1,279,547	6,846,065
Total Capital Assets Not Being Depreciated	2,453,481	6,846,065	1,279,547	8,019,999
Capital Assets Being Depreciated				
Land improvements	16,410,640	2,309,069	-	18,719,709
Buildings and improvements	47,058,734	1,123,703	32,373	48,150,064
Portable classrooms and structures	217,200	-	-	217,200
Furniture and equipment	6,364,005	2,806,514	277,514	8,893,005
Total Capital Assets Being Depreciated	70,050,579	6,239,286	309,887	75,979,978
Less Accumulated Depreciation				
Land improvements	8,411,664	900,210	-	9,311,874
Buildings and improvements	14,396,667	1,074,255	12,410	15,458,512
Portable classrooms and structures	183,948	6,964	-	190,912
Furniture and equipment	3,086,650	545,534	261,633	3,370,551
Total Accumulated Depreciation	26,078,929	2,526,963	274,043	28,331,849
Governmental Activities Capital Assets, Net	$ 46,425,131	$ 10,558,388	$ 1,315,391	$ 55,668,128

Depreciation expense charged to governmental activities was as follows.

Governmental Activities	
Instruction	$ 2,274,267
School site administration	126,348
All other pupil services	126,348
Total Depreciation Expenses Governmental Activities	$ 2,526,963

NOTE 6 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

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	Special Reserve Fund for Capital Outlay Projects	Total Governmental Activities
General Fund	$ -	$ 108,895	$ 108,895
Non-Major Governmental Funds	2,876	-	2,876
Total	$ 2,876	$ 108,895	$ 111,771

A balance of $108,895 is due to the General Fund from the Special Reserve Fund for Capital Outlay Projects for reimbursement for Schneider LBHS lightning project.

A balance of $724 is due to the Adult Education Non-Major Governmental Fund from the General Fund for reimbursement of payroll expenditures.

A balance of $2,152 is due to the Cafeteria Non-Major Governmental Fund from the General Fund for catering services provided and reimbursement of payroll expenditures.

Operating Transfers

Interfund transfers for the year ended June 30, 2017, consisted of the following:

	Transfer From		
Transfer To	General Fund	Special Reserve Fund for Capital Outlay Projects	Total
General Fund	$ -	$ 500,000	$ 500,000
Special Reserve Fund for Capital Outlay Projects	2,100,000	-	2,100,000
Non-Major Governmental Funds	165,000	-	165,000
Total	$ 2,265,000	$ 500,000	$ 2,765,000

The General Fund transferred to the Special Reserve Fund for Capital Outlay Projects for the Facilities Repair and Replacement Program.	$ 900,000
The General Fund transferred to the Special Reserve Fund for Capital Outlay Projects for the Capital Improvement Plan (CIP).	1,200,000
The General Fund transferred to the Cafeteria Non-Major Governmental Fund to cover program costs.	165,000
The Special Reserve Fund for Capital Outlay Projects transferred to the General Fund for the Aliso Property Reserve.	500,000
Total	$ 2,765,000

NOTE 7 - ACCOUNTS PAYABLE

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

	General Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total Governmental Activities
Salaries and benefits	$ 1,430,677	$ -	$ 52,042	$ 1,482,719
Supplies and materials	194,477	-	4,750	199,227
Services	717,890	-	2,988	720,878
Construction	78,965	3,298,377	96,326	3,473,668
Due to SELPA	15,051	-	-	15,051
Due to OCDE	1,980	-	-	1,980
Other vendor payables	32,684	-	1,295	33,979
Total	$ 2,471,724	$ 3,298,377	$ 157,401	$ 5,927,502

NOTE 8 - UNEARNED REVENUE

Unearned revenue at June 30, 2017, consisted of the following:

	General Fund
State categorical aid	$ 162,000
Other local	21,452
Total	$ 183,452

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	$ 26,090,000	$ -	$ 1,335,000	$ 24,755,000	$ 1,455,000
Premium on issuance	2,515,737	-	209,644	2,306,093	-
Compensated absences	245,741	11,077	-	256,818	-
	$ 28,851,478	$ 11,077	$ 1,544,644	$ 27,317,911	$ 1,455,000

Payments on the general obligation bonds are made by the bond interest and redemption fund with local revenues. The compensated absences 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 01, 2016	Issued	Redeemed	Bonds Outstanding June 30, 2017
7/8/10	8/1/28	2.00-5.00%	$ 30,090,000	$ 26,090,000	$ -	$ 1,335,000	$ 24,755,000

2010 General Obligation Refunding Bonds

In July 2010, the District issued the $30,090,000 2010 General Obligation Refunding Bonds. The bonds have a final maturity that occurs August 1, 2028, with interest rates from 2.00 to 5.00 percent. The net proceeds of $33,688,894 from the issuance (issuance of $30,090,000 net of premium received of $3,773,607 and costs incurred on issuance of $174,713) were used to advance refund a portion of the District's outstanding 2001 General Obligation Bonds, Series 2001 and 2003. At June 30, 2017, the principal balance outstanding on the 2010 General Obligation Refunding Bonds was $24,755,000. Unamortized premium and deferred charges on refunding received on issuance of the bonds amounted to $2,306,093 and $1,384,914 as of June 30, 2017, respectively.

The bonds mature through 2029 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2018	$ 1,455,000	$ 1,178,250	$ 2,633,250
2019	1,585,000	1,117,450	2,702,450
2020	1,710,000	1,043,000	2,753,000
2021	1,870,000	953,500	2,823,500
2022	2,030,000	856,000	2,886,000
2023-2027	12,930,000	2,509,250	15,439,250
2028-2029	3,175,000	162,125	3,337,125
Total	$ 24,755,000	$ 7,819,575	$ 32,574,575

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2017, amounted to $256,818.

NOTE 10 - NON-OBLIGATORY DEBT

Non-obligatory debt relates to debt issued by the Community Facility District as authorized by the Mello-Roos Community Facilities Act of 1982 as amended, and are payable from special taxes levied on property within the Community Facilities District according to a methodology approved by the voters within the District. Neither the faith and credit nor taxing power of the District is pledged to the payment of the bonds. Reserves have been established from the bond proceeds to meet delinquencies should they occur. If delinquencies occur beyond the amounts held in those reserves, the District has no duty to pay the delinquency out of any available funds of the District. The District acts solely as an agent for those paying taxes levied and the bondholders. The Community Facilities District Special Tax Bonds currently active include Community Facilities District No. 98-1 with a remaining balance as of June 30, 2017, of $8,545,000.

NOTE 11 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total
Nonspendable				
Revolving cash	$ 50,000	$ -	$ 1,295	$ 51,295
Stores inventories	-	-	8,143	8,143
Total Nonspendable	50,000	-	9,438	59,438
Restricted				
Legally restricted programs	2,680,302	-		2,680,302
Special revenue funds	-	-	104,469	104,469
Capital projects funds	-	-	283,102	283,102
Debt service funds	-	-	2,063,571	2,063,571
Total Restricted	2,680,302	-	2,451,142	5,131,444
Committed				
Basic aid differential	16,133,087	-	-	16,133,087
Aliso property	-	5,225,920	-	5,225,920
Capital Improvement Plan	-	3,325,621	-	3,325,621
Facilities repair and replacement program	-	500,275	-	500,275
Total Committed	16,133,087	9,051,816	-	25,184,903
Assigned				
Carryover for reallocation	567,372	-	-	567,372
Potential one-time expenditures	1,256,272	-	-	1,256,272
Total Assigned	1,823,644	-	-	1,823,644
Unassigned				
Reserve for economic uncertainties	2,913,024	-	-	2,913,024
Total	$ 23,600,057	$ 9,051,816	$ 2,460,580	$ 35,112,453

NOTE 12 - POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB)

The Postemployment Benefits Plan (the Plan) is a single-employer defined benefit healthcare plan administered by the Laguna Beach Unified School District. The Plan provides medical insurance benefits to eligible retirees. Membership of the Plan consists of 36 retirees and beneficiaries currently receiving benefits and 246 active plan members.

Contribution Information

The contribution requirements of Plan members and the District are established and may be amended by the District and the Laguna Beach Unified Faculty Association, the local California Service Employees Association (CSEA), and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2016-2017, the District contributed $467,021 to the Plan, all of which was used for current premiums.

Annual OPEB Cost and Net OPEB Asset

The District's annual 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 30 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 asset to the Plan:

Annual required contribution	$ 401,889
Interest on net OPEB asset	(35,629)
Adjustment to annual required contribution	14,890
Annual OPEB cost (expense)	381,150
Contributions made	(467,021)
Increase in net OPEB asset	(85,871)
Net OPEB asset, beginning of year	(593,824)
Net OPEB asset, end of year	$ (679,695)

Trend Information

Trend information for annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB asset is as follows:

Year Ended June 30,	Annual OPEB Cost	Actual Employer Contribution	Percentage Contributed	Net OPEB Asset
2015	$ 524,570	$ 257,656	49%	$ 1,360,237
2016	449,398	2,403,459	535%	(593,824)
2017	381,150	467,021	123%	(679,695)

Funded Status and Funding Progress

A schedule of funding progress as of the most recent actuarial valuation is as follows:

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)
July 1, 2016	$ 2,704,831	$ 3,780,014	$ 1,075,183	72%	$ 29,278,215	4%

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 July 1, 2016, actuarial valuation, the entry age normal method was used. Currently, the District sets aside assets in an irrevocable employee benefit trust. The assumptions included a six percent investment rate of return, based on the plan being funded in an irrevocable employee benefit trust invested in a combined equity and fixed income portfolio. Healthcare cost trend rates reflected an ultimate rate of four percent. The UAAL is being amortized at a level dollar method. The remaining amortization period at June 30, 2017, was 22 years.

NOTE 13 - RISK MANAGEMENT

Description

The District's risk management activities are recorded in the General Fund. Employee life, health, and disability programs are administered by the General Fund through the purchase of commercial insurance. The District participates in a public entity risk pool for its workers' compensation program. Refer to Note 16 for additional information regarding the public entity risk pool.

NOTE 14 - 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	$ 34,074,498	$ 6,421,293	$ 2,111,518	$ 3,256,998
CalPERS	10,108,492	3,009,959	328,697	1,318,839
Total	$ 44,182,990	$ 9,431,252	$ 2,440,215	$ 4,575,837

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 $2,817,878.

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	$ 34,074,498
State's proportionate share of the net pension liability associated with the District	19,398,004
Total	$ 53,472,502

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 0.0421 percent and 0.0441 percent, resulting in a net decrease in the proportionate share of 0.0020 percent.

For the year ended June 30, 2017, the District recognized pension expense of $3,256,998. In addition, the District recognized pension expense and revenue of $1,875,021 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	$ 2,817,878	$ -
Net change in proportionate share of net pension liability	894,508	1,280,309
Difference between projected and actual earnings on pension plan investments	2,708,907	-
Difference between expected and actual experiences in the measurement of the total pension liability	-	831,209
Total	$ 6,421,293	$ 2,111,518

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	$ 59,100
2019	59,100
2020	1,574,696
2021	1,016,011
Total	$ 2,708,907

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	$ (186,183)
2019	(186,183)
2020	(186,183)
2021	(186,183)
2022	(186,186)
Thereafter	(286,092)
Total	$ (1,217,010)

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 log normally 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	Net Pension Liability
1% decrease (6.60%)	$ 49,040,887
Current discount rate (7.60%)	34,074,498
1% increase (8.60%)	21,644,285

California Public Employees Retirement System (CalPERS)

Plan Description

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

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 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 provide 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:

	School Employer Pool (CalPERS)	
	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	7.00%	6.00%
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 are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. 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 $893,190.

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 $10,108,492. 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 0.0512 percent and 0.0502 percent, resulting in a net increase in the proportionate share of 0.0010 percent.

For the year ended June 30, 2017, the District recognized pension expense of $1,318,839. 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	$ 893,190	$ -
Net change in proportionate share of net pension liability	113,494	24,997
Difference between projected and actual earnings on pension plan investments	1,568,513	-
Difference between expected and actual experiences in the measurement of the total pension liability	434,762	-
Changes of assumptions	-	303,700
Total	$ 3,009,959	$ 328,697

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	$ 220,004
2019	220,005
2020	719,136
2021	409,368
Total	$ 1,568,513

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	$ 67,324
2019	69,756
2020	82,479
Total	$ 219,559

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%)	$ 15,081,926
Current discount rate (7.65%)	10,108,492
1% increase (8.65%)	5,967,129

Tax Deferred Annuity/Social Security

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

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 $1,734,038 (8.828 percent of annual payroll). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on-behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been included in the calculation of available reserves, but have not been included in the budgeted amounts reported in the *General Fund - Budgetary Comparison Schedule*.

NOTE 15 - COMMITMENTS AND CONTINGENCIES

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 litigations 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 16 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS, JOINT POWER AUTHORITIES, AND OTHER RELATED PARTY TRANSACTIONS

The District is a member of the Alliance of Schools for Cooperative Insurance Program (ASCIP), Schools Excess Liability Fund (SELF), and Western Orange County Self-Funded Workers' Compensation Agency public entity risk pools, and the South Coast Regional Occupational Program joint powers authority (JPA). The District pays an annual premium to ASCIP and Western Orange County Self-Funded Workers' Compensation Agency for its property liability coverage and workers' compensation, respectively. Payments for excess insurance for property liability coverage are purchased through ASCIP from SELF. Payments for regional occupational services received are paid to the South Coast Regional Occupational Program. The relationships between the District, the pools, 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.

The District has appointed one board member to the Governing Board of South Coast Regional Occupational Program.

During the year ended June 30, 2017, the District made payments of $279,083, $394,648, and $148,908 to ASCIP, Western Orange County Self-Funded Workers' Compensation Agency, and South Coast Regional Occupational Program, respectively.

REQUIRED SUPPLEMENTARY INFORMATION

LAGUNA BEACH 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				
Limit Control Funding Formula	$ 48,300,000	$ 49,310,396	$ 49,231,366	$ (79,030)
Federal sources	895,545	933,101	914,253	(18,848)
Other State sources	3,209,325	3,562,313	3,924,282	361,969
Other local sources	2,589,130	3,174,518	3,756,887	582,369
Total Revenues [1]	54,994,000	56,980,328	57,826,788	846,460
EXPENDITURES				
Current				
Certificated salaries	21,777,987	22,017,553	22,111,437	(93,884)
Classified salaries	8,225,918	8,216,497	8,169,085	47,412
Employee benefits	11,421,674	11,374,271	11,701,314	(327,043)
Books and supplies	2,192,879	2,993,549	3,155,593	(162,044)
Services and operating expenditures	7,919,226	9,036,720	8,084,868	951,852
Capital outlay	1,151,065	3,169,032	2,480,227	688,805
Other outgo	421,366	307,816	292,938	14,878
Total Expenditures [1]	53,110,115	57,115,438	55,995,462	1,119,976
Excess (Deficiency) of Revenues Over Expenditures	1,883,885	(135,110)	1,831,326	1,966,436
Other Financing Sources (Uses)				
Transfers in	500,000	500,000	500,000	-
Transfers out	(2,265,000)	(2,265,000)	(2,265,000)	-
Net Financing Sources (Uses)	(1,765,000)	(1,765,000)	(1,765,000)	-
NET CHANGE IN FUND BALANCE	118,885	(1,900,110)	66,326	1,966,436
Fund Balance - Beginning	23,533,731	23,533,731	23,533,731	-
Fund Balance - Ending	$ 23,652,616	$ 21,633,621	$ 23,600,057	$ 1,966,436

[1] Due to the consolidation of Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects, for reporting purposes into the General Fund, additional revenues and expenditures pertaining to this other fund are included in the Actual (GAAP Basis) revenues and expenditures, and also included in the original and final General Fund budgets. On behalf payments have been included in the calculation of available reserves, but have not been included in the budgeted amounts reported above.

See accompanying note to required supplementary information.

LAGUNA BEACH 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)
August 1, 2013	$ -	$ 3,288,628	$ 3,288,628	0%	$ 24,572,424	13%
July 1, 2015	-	3,776,326	3,776,326	0%	25,664,455	15%
July 1, 2016	2,704,831	3,780,014	1,075,183	72%	29,278,215	4%

See accompanying note to required supplementary information.

SCHEDULE OF THE DISTRICT 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	0.0421%	0.0441%	0.0424%
District's proportionate share of the net pension liability	$ 34,074,498	$ 29,723,141	$ 24,794,719
State's proportionate share of the net pension liability associated with the District	19,398,004	15,720,265	14,972,122
Total	$ 53,472,502	$ 45,443,406	$ 39,766,841
District's covered - employee payroll	$ 20,910,792	$ 20,133,829	$ 19,189,962
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	162.95%	147.63%	129.21%
Plan fiduciary net position as a percentage of the total pension liability	70%	74%	77%
CalPERS			
District's proportion of the net pension liability	0.0512%	0.0502%	0.0505%
District's proportionate share of the net pension liability	$ 10,108,492	$ 7,397,321	$ 5,735,409
District's covered - employee payroll	$ 6,068,439	$ 5,507,921	$ 5,382,462
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	166.57%	134.30%	106.56%
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.

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

SCHEDULE OF DISTRICT CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2017

	2017	2016	2015
CalSTRS			
Contractually required contribution	$ 2,817,878	$ 2,243,728	$ 1,787,884
Contributions in relation to the contractually required contribution	2,817,878	2,243,728	1,787,884
Contribution deficiency (excess)	$ -	$ -	$ -
District's covered - employee payroll	$ 22,399,666	$ 20,910,792	$ 20,133,829
Contributions as a percentage of covered - employee payroll	12.58%	10.73%	8.88%
CalPERS			
Contractually required contribution	$ 893,190	$ 718,928	$ 648,337
Contributions in relation to the contractually required contribution	893,190	718,928	648,337
Contribution deficiency (excess)	$ -	$ -	$ -
District's covered - employee payroll	$ 6,431,380	$ 6,068,439	$ 5,507,921
Contributions as a percentage of covered - employee payroll	13.888%	11.847%	11.771%

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

See accompanying note to required supplementary information.

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
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.

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

Changes in Assumptions **–** There were no changes in economic assumptions for either the CalSTRS or CalPERS plans from the previous valuations.

Schedule of District Contributions

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

SUPPLEMENTARY INFORMATION

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

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

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education (CDE):			
No Child Left Behind Act:			
Title I, Part A - Low Income and Neglected	84.010	14329	$ 219,502
Title I, Part G - Advanced Placement Test Fee	84.330	14831	950
Title II, Part A - Teacher Quality	84.367	14341	62,664
Title III - Limited English Proficient Student Program	84.365	14346	12,575
Passed through South Orange County SELPA:			
Special Education (IDEA) Cluster:			
Individuals with Disabilities Education Act:			
Local Assistance Entitlement	84.027	13379	424,279
Preschool Grants	84.173	13430	12,900
Preschool Local Entitlement	84.027A	13682	48,574
Preschool Staff Development	84.173A	13431	156
Mental Health Allocation Plan	84.027A	14468	30,159
Alternative Dispute Resolution, Part B,	84.173A	13007	3,524
Total Special Education (IDEA) Cluster			519,592
Passed through California Department of Rehabilitation:			
Workability II - Transition Partnership	84.126	10006	2,973
State Vocational Rehabilitation Services Program	84.126A	N/A	81,710
Total for U.S. Department of Education			899,966
U.S. DEPARTMENT OF AGRICULTURE			
Passed through CDE:			
Child Nutrition Cluster:			
National School Lunch Program	10.555	13396	99,335
Basic Breakfast	10.553	13525	25,825
Food Distribution	10.555	13396	22,922
Total Child Nutrition Cluster			148,082
Total for U.S. Department of Agriculture			148,082
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through CDE:			
LEA Medi-Cal Billing Option	93.778	10013	18,944
Total Federal Expenditures			$ 1,066,992

See accompanying note to supplementary information.

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2017

ORGANIZATION

The Laguna Beach Unified School District was established 1936 and consists of an area comprising approximately 23 square miles. The District operates two elementary schools, one middle school, one high school, and one adult education program. There were no boundary changes during the year.

GOVERNING BOARD

MEMBER	OFFICE	TERM EXPIRES
Jan Vickers	President	2020
Dee Perry	Clerk	2018
Ketta Brown	Member	2018
Carol Normandin	Member	2018
Peggy Wolff	Member	2020

ADMINISTRATION

NAME	TITLE
Jason Viloria	Superintendent
Jeff Dixon	Assistant Superintendent, Business Services
Alysia Odipo	Assistant Superintendent, Instructional Services

See accompanying note to supplementary information.

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2017

	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Transitional kindergarten through third	663	663
Fourth through sixth	687	686
Seventh and eighth	464	463
Ninth through twelfth	1,055	1,045
Total Regular ADA	2,869	2,857
Extended Year Special Education		
Transitional kindergarten through third	1	1
Fourth through sixth	1	1
Total Extended Year Special Education	2	2
Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	1	1
Fourth through sixth	2	2
Ninth through twelfth	3	3
Total Special Education, Nonpublic, Nonsectarian Schools	6	6
Extended Year Special Education, Nonpublic, Nonsectarian Schools		
Ninth through twelfth	1	1
Total ADA	2,878	2,866

See accompanying note to supplementary information.

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

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

Grade Level	1986-87 Minutes Requirement	2016-17 Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
Kindergarten	36,000	37,280	180	N/A	Complied
Grades 1 - 3	50,400				
Grade 1		54,287	180	N/A	Complied
Grade 2		54,287	180	N/A	Complied
Grade 3		54,287	180	N/A	Complied
Grades 4 - 6	54,000				
Grade 4		55,907	180	N/A	Complied
Grade 5		55,907	180	N/A	Complied
Grade 6		57,841	180	N/A	Complied
Grades 7 - 8	54,000				
Grade 7		57,841	180	N/A	Complied
Grade 8		57,841	180	N/A	Complied
Grades 9 - 12	64,800				
Grade 9		64,805	180	N/A	Complied
Grade 10		64,805	180	N/A	Complied
Grade 11		64,805	180	N/A	Complied
Grade 12		64,805	180	N/A	Complied

See accompanying note to supplementary information.

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

There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2017.

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	$ 58,176,248	$ 57,705,575	$ 55,981,036	$ 49,863,467
Other sources and transfers in	125,000	500,000	2,000,000	-
Total Revenues and Other Sources	58,301,248	58,205,575	57,981,036	49,863,467
Expenditures	55,321,203	55,995,462	55,326,309	48,989,283
Other uses and transfers out	2,265,000	2,265,000	2,315,550	1,885,952
Total Expenditures and Other Uses	57,586,203	58,260,462	57,641,859	50,875,235
INCREASE (DECREASE) IN FUND BALANCE	$ 715,045	$ (54,887)	$ 339,177	$ (1,011,768)
ENDING FUND BALANCE	$ 8,182,014	$ 7,466,969	$ 7,521,856	$ 7,182,679
AVAILABLE RESERVES [2]	$ 3,000,000	$ 2,913,024	$ 2,882,093	$ 2,550,000
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO	5.21%	5.00%	5.00%	5.01%
LONG-TERM OBLIGATIONS	N/A	$ 27,317,911	$ 28,851,478	$ 31,608,552
K-12 AVERAGE DAILY ATTENDANCE AT P-2	2,859	2,878	2,899	2,932

The General Fund balance decreased by $54,887 last year. The fiscal year 2017-2018 budget projects an increase of $715,045 9.6 percent). For a district this size, the State recommends available reserves of at least three percent of total General Fund expenditures, transfers out, and other uses (total outgo).

Total long-term obligations have decreased by $4,290,641 over the past two years.

Average daily attendance has decreased by 54 over the past two years. An additional decline of 19 ADA is anticipated during fiscal year 2017-2018.

[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 with the General Fund.
[3] General Fund amounts do not include activity related to the consolidation of the Special Reserve Fund for Other Than Outlay Projects as required by GASB Statement No. 54.

See accompanying note to supplementary information.

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

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

	Adult Education Fund	Cafeteria Fund	Capital Facilities Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds
ASSETS					
Deposits and investments	$ 134,591	$ 68,578	$ 312,140	$ 2,063,571	$ 2,578,880
Receivables	81	27,751	250	-	28,082
Due from other funds	724	2,152	-	-	2,876
Stores inventories	-	8,143	-	-	8,143
Total Assets	$ 135,396	$ 106,624	$ 312,390	$ 2,063,571	$ 2,617,981
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	$ 67,762	$ 60,351	$ 29,288	$ -	$ 157,401
Fund Balances					
Nonspendable	-	9,438	-	-	9,438
Restricted	67,634	36,835	283,102	2,063,571	2,451,142
Total Fund Balances	67,634	46,273	283,102	2,063,571	2,460,580
Total Liabilities and Fund Balances	$ 135,396	$ 106,624	$ 312,390	$ 2,063,571	$ 2,617,981

See accompanying note to supplementary information.

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

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

	Adult Education Fund	Cafeteria Fund	Capital Facilities Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds
REVENUES					
Federal sources	$ -	$ 148,082	$ -	$ -	$ 148,082
Other State sources	91,735	7,813	-	5,689	105,237
Other local sources	574	532,572	178,475	2,667,700	3,379,321
Total Revenues	92,309	688,467	178,475	2,673,389	3,632,640
EXPENDITURES					
Current					
Instruction	30,707	-	-	-	30,707
Supervision of instruction	-	-	-	-	-
Instructional library, media, and technology	73,602	-	-	-	73,602
Pupil services:					
Food services	-	860,195	-	-	860,195
Facility acquisition and construction	-	-	131,760	-	131,760
Debt service					
Principal	-	-	-	1,335,000	1,335,000
Interest and other	-	-	-	1,234,050	1,234,050
Total Expenditures	104,309	860,195	131,760	2,569,050	3,665,314
Excess (Deficiency) of Revenues Over Expenditures	(12,000)	(171,728)	46,715	104,339	(32,674)
Other Financing Sources					
Transfers in	-	165,000	-	-	165,000
NET CHANGE IN FUND BALANCES	(12,000)	(6,728)	46,715	104,339	132,326
Fund Balances - Beginning	79,634	53,001	236,387	1,959,232	2,328,254
Fund Balances - Ending	$ 67,634	$ 46,273	$ 283,102	$ 2,063,571	$ 2,460,580

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 Governmental Funds Statement of Revenues, Expenditures, and Changes in Funds Balances, and the related expenditures reported on the schedule of Expenditures of Federal Awards. The reconciling amounts consist primarily of Medi-Cal Billing Options funds in the previous period were recorded as revenues but were unspent. These unspent balances have been expended in the current period.

	CFDA Number	Amount
Total Federal Revenues from the Statement of Revenues, Expenditures, and Changes in Fund Balances:		$ 1,062,335
LEA Medi-Cal Billing Option	93.778	4,657
Total Schedule of Expenditures of Federal Awards		$ 1,066,992

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.

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 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.

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2017

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.

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

The Non-Major Governmental Funds Combining Balance Sheet and Combining Statement of Revenues, Expenditures, and Changes in Fund Balances 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 Balances.

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
Laguna Beach Unified School District
Laguna Beach, 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 Laguna Beach 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 Laguna Beach Unified School District's basic financial statements, and have issued our report thereon dated November 15, 2017.

Internal Control Over Financial Reporting

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

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Laguna Beach 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*.

We noted certain matters that we reported to management of Laguna Beach Unified School District in a separate letter dated November 15, 2017.

Purpose of This Report

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

Vavrinek, Trine, Day + Co. LLP

Rancho Cucamonga, California
November 15, 2017

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

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

Governing Board
Laguna Beach Unified School District
Laguna Beach, California

Report on Compliance for Each Major Federal Program

We have audited Laguna Beach Unified School District's (the District) compliance with the types of compliance requirement described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Laguna Beach Unified School District's major Federal programs for the year ended June 30, 2017. Laguna Beach 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 Laguna Beach 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 Laguna Beach 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 Laguna Beach Unified School District's compliance.

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Opinion on Each Major Federal Program

In our opinion, Laguna Beach 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 Laguna Beach 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 Laguna Beach 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 Laguna Beach 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

Rancho Cucamonga, California
November 15, 2017

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
Laguna Beach Unified School District
Laguna Beach, California

Report on State Compliance

We have audited Laguna Beach Unified School District's (the District) 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 Laguna Beach 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 Laguna Beach 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 Laguna Beach 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 Laguna Beach Unified School District's compliance with those requirements.

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Unmodified Opinion on Each of the Programs

In our opinion, Laguna Beach 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.

In connection with the audit referred to above, we selected and tested transactions and records to determine the Laguna Beach 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	No, see below
Continuation Education	No, 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

	Procedures Performed
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 an Independent Study Program; therefore, we did not perform procedures related to the Independent Study Program.

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

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

The District does not offer an Independent Study-Coursed 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 District does not have any Charter Schools; therefore, we did not perform any procedures for Charter School Programs.

Vavrinek, Trine, Day + Co. LLP

Rancho Cucamonga, California
November 15, 2017

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

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?	None reported
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 Numbers	Name of Federal Program or Cluster
84.027, 84.027A, 84.173, and 84.173A	Special Education (IDEA) 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

None reported.

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.

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

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

There were no audit findings reported in the prior year's schedule of financial statement findings.

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

Governing Board
Laguna Beach Unified School District
Laguna Beach, California

In planning and performing our audit of the financial statements of Laguna Beach Unified School District (the District) for the year ended June 30, 2017, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted a matter that is an opportunity for strengthening internal controls and operating efficiency. The following item represents a condition noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated November 15, 2017, on the financial statements of Laguna Beach Unified School District.

VACATION

<u>Observation</u>

Through testing of 30 employees' vacation usage, it was noted that two employees had used vacation days that were not entered into the District's vacation tracking system. This resulted in an overstatement of each employee's vacation balance.

<u>Recommendation</u>

The District should establish a review process to ensure that vacation days used by District employees are properly entered into the District's vacation tracking system.

ASSOCIATED STUDENT BODY (ASB)

Thurston Middle School

<u>Observations</u>

During our audit of the ASB internal controls, we noted the following issues:

1. For eight deposit batches tested, three contained monies that were not deposited in a timely manner. The delay in the deposits ranged from eight to 92 days from the date of initial receipt.
2. In our testing of cash receipts, we discovered that receipts are not always being issued for monies collected. This was evident when four deposit batches contained monies which were not receipted.
3. During testing of sweatshirt sales, the auditor noted that a daily sales report is not being used to document cash received and the number of clothing items sold. In addition, a perpetual inventory log is not maintained to document beginning and ending inventory counts.

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Governing Board
Laguna Beach Unified School District

4. Based on the review of procedures over fundraising events it was noted that revenue potential forms are not being utilized.
5. During testing of fundraiser activities, the auditor noted that one fundraiser did not provide supporting documentation for monies collected.

Recommendations

1. Deposits should be made, at minimum, weekly in order to minimize the amount of cash held at the site. During weeks of high cash activity there may be a need to make more than one deposit. The District has procedures for the appropriate handling of deposits that are appropriate to the schools. The site should enforce these procedures including the maximum cash on hand that should be maintained at the site.
2. The ASB should issue receipts whenever it receives money or checks for any event or sale. Pre-numbered triplicate receipts or logs should be utilized when collecting money for all ASB events and transactions. If utilizing a log, the students name and amount being turned in should be documented. If using a receipt book, the receipts should be issued in sequential order to all individuals turning in monies for ASB events. Teachers and administrators who collect monies should be equipped with a triplicate receipts book or a log sheet. The white copy of the receipt should be issued to the person turning in the monies, the yellow receipt or log sheet should be utilized for deposit back-up, and the pink copy should be retained in the receipt book for audit purposes. When teachers are turning in monies for deposit, a cash count sheet should be turned in with the yellow copy of the receipts and monies to clearly identify the total amount being turned in.
3. A daily sales report should be generated to document the number of clothing items sold and cash received. In addition, the site should implement a perpetual inventory system that will allow for the daily tracking of sales. This will aid the site in reconciling actual cash collection to compute cash based on items sold. In addition, a perpetual inventory system will aid the site in reconciling the inventory to the monthly physical counts and identify any variances.
4. Revenue potential forms should be completed in its entirety at the end of each fundraiser. The revenue potentials form is important because it demonstrates the profitability of a fundraising activity. The form is also used to document any variances between projected to actual sales. The form also requires an explanation of any overages/shortages between sales receipted to monies deposited. The site administrator should ensure that these forms are completed and turned into the bookkeeper at the conclusion of the fundraiser.
5. In order to ensure proper internal controls over cash deposits, the ASB should issue receipts for all cash received from the sales of goods, fundraisers, and athletic events. Without the use of receipts, the ASB does not have the ability to reconcile and verify that all cash collected by the ASB has been deposited in the bank and recorded on the ASB general ledger.

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

VAVRINEK, TRINE, DAY + CO. LLP

Rancho Cucamonga, California
November 15, 2017