



**ENCINITAS UNION
SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2018

ENCINITAS UNION SCHOOL DISTRICT

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FINANCIAL SECTION



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

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INDEPENDENT AUDITOR'S REPORT

Governing Board
Encinitas Union School District
Encinitas, California

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Emphasis of Matter - Change in Accounting Principles

As discussed in Note 1 and Note 15 to the financial statements, in 2018, the District adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 15, budgetary comparison schedule on page 71, schedule of changes in the District's total OPEB liability and related ratios on page 72, schedule of the District's proportionate share of the net OPEB liability - MPP program on page 73, schedule of the District's proportionate share of the net pension liability on page 74, and the schedule of District contributions on page 75, 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 Encinitas Union 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 October 9, 2018, on our consideration of the Encinitas Union 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 Encinitas Union 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 Encinitas Union School District's internal control over financial reporting and compliance.

VAUGHN, TRINE, INC. & CO. LLP

Rancho Cucamonga, California
October 9, 2018

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This section of Encinitas Union 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, 2018, with comparative information for the year ending June 30, 2017. Please read it in conjunction with the District's financial statements, which immediately follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

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

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

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

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

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

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

The Primary unit of the government is the Encinitas Union School District.

ENCINITAS UNION SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Position and the Statement of Activities

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

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

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

In the *Statement of Net Position* and the *Statement of Activities*, the District reports all of its activities as follows:

Governmental Activities - Most of the District's services are reported in this category. This includes the education of kindergarten through grade six students, the operation of child development activities, and the ongoing effort to improve and maintain buildings and sites. Property taxes, State income taxes, user fees, interest income, Federal, State, and local grants, as well as general obligation bonds, finance these activities.

Business-Type Activities – The District charges fees to help it cover the costs of certain services it provides. The District's child care programs and services are included here.

ENCINITAS UNION SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

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

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

Proprietary Funds - When the District charges users for the services it provides, whether to outside customers or to other departments within the District, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the *Statement of Net Position* and the *Statement of Revenues, Expenses, and Changes in Fund Net Position*. In fact, the District's enterprise funds are the same as the business-type activities we report in the government-wide statements, but provide more detail and additional information, such as cash flows, for proprietary funds. We use internal service funds (the other component of proprietary funds) to report activities that provide supplies and services for the District's other programs and activities, such as the District's Self-Insurance Fund. The internal service funds are reported with governmental activities in the government-wide financial statements.

FINANCIAL HIGHLIGHTS

- Total net position was \$21,650,348 at June 30, 2018. This was a decrease of \$5,574,141 from the prior year.
- Overall revenues were \$69,739,282 which were exceeded by expenditures of \$75,313,423.

ENCINITAS UNION SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

THE DISTRICT AS A WHOLE

Net Position

The District's net position was \$21,650,348 for the fiscal year ended June 30, 2018. Of this amount, \$(76,158,542) was unrestricted deficit. Restricted Net Position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the governing board's ability to use that net position for day-to-day operations. Our analysis below, in summary form, focuses on the Net Position (Table 1) and change in Net Position (Table 2) of the District's governmental activities.

Table 1

	Governmental Activities		Business-Type Activities		Total District Activities	
	2018	2017, as restated	2018	2017	2018	2017, as restated
ASSETS						
Current and other assets	\$ 43,065,804	\$ 49,556,200	\$ 408,836	\$ -	\$ 43,474,640	\$ 49,556,200
Capital assets	111,149,201	110,878,181	-	-	111,149,201	110,878,181
Total Assets	154,215,005	160,434,381	408,836	-	154,623,841	160,434,381
Deferred Outflows of Resources	17,051,145	9,672,859	225,085	-	17,276,230	9,672,859
LIABILITIES						
Current liabilities	3,265,114	4,321,278	174,958	-	3,440,072	4,321,278
Long-term obligations	80,616,410	81,793,103	300,663	-	80,917,073	81,793,103
Aggregate net pension liability	58,012,891	49,683,919	738,221	-	58,751,112	49,683,919
Total Liabilities	141,894,415	135,798,300	1,213,842	-	143,108,257	135,798,300
Deferred Inflows of Resources	7,117,209	7,084,451	24,257	-	7,141,466	7,084,451
NET POSITION						
Net investment in capital assets	90,673,180	67,070,646	-	-	90,673,180	67,070,646
Restricted	7,135,710	13,971,204	-	-	7,135,710	13,971,204
Unrestricted	(75,554,364)	(53,817,361)	(604,178)	-	(76,158,542)	(53,817,361)
Total Net Position	\$ 22,254,526	\$ 27,224,489	\$ (604,178)	\$ -	\$ 21,650,348	\$ 27,224,489

The \$(76,158,542) in unrestricted net position represents the accumulated results of all past years' operations. Unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, increased by 41.3 percent \$(76,158,542) compared to \$(53,817,361).

ENCINITAS UNION SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

Changes in Net Position

The results of this year's operations for the District as a whole are reported in the *Statement of Activities* on page 17. Table 2 takes the information from the Statement, rounds off the numbers, and rearranges them slightly so you can see our total revenues for the year.

Table 2

	Governmental Activities		Business-Type Activities		Total District Activities	
	2018	2017	2018	2017	2018	2017
Revenues						
Program revenues:						
Charges for services	\$ 899,864	\$ 1,084,953	\$ 1,997,442	\$ -	\$ 2,897,306	\$ 1,084,953
Operating grants and contributions	7,375,955	7,523,652	10,942	-	7,386,897	7,523,652
General revenues:						
Federal and State aid not restricted	4,759,011	5,277,875	-	-	4,759,011	5,277,875
Property taxes	50,000,178	47,468,940	-	-	50,000,178	47,468,940
Other general revenues	4,691,967	6,287,588	3,923	-	4,695,890	6,287,588
Total Revenues	67,726,975	67,643,008	2,012,307	-	69,739,282	67,643,008
Expenses						
Instruction	43,030,279	40,373,065	-	-	43,030,279	40,373,065
Instruction-related	5,501,776	5,346,683	-	-	5,501,776	5,346,683
Pupil services	5,250,976	5,164,352	-	-	5,250,976	5,164,352
Administration	3,693,418	4,062,347	-	-	3,693,418	4,062,347
Plant services	4,680,907	4,293,610	-	-	4,680,907	4,293,610
Ancillary and community services	302,609	1,690,552	-	-	302,609	1,690,552
Enterprise services	13,056	-	2,616,485	-	2,629,541	-
Debt service - interest	3,114,044	2,775,964	-	-	3,114,044	2,775,964
Other outgo	144,160	440,878	-	-	144,160	440,878
Depreciation	6,965,713	5,632,004	-	-	6,965,713	5,632,004
Total Expenses	72,696,938	69,779,455	2,616,485	-	75,313,423	69,779,455
Change in Net Position	\$ (4,969,963)	\$ (2,136,447)	\$ (604,178)	\$ -	\$ (5,574,141)	\$ (2,136,447)

ENCINITAS UNION SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

Governmental Activities

As reported in the *Statement of Activities* on page 17, the cost of all of our governmental activities this year was \$72,696,938. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$(50,000,178) because the cost was paid by those who benefited from the programs \$(899,864) or by other governments and organizations who subsidized certain programs with grants and contributions \$(7,375,955). We paid for the remaining "public benefit" portion of our governmental activities with \$9,450,978 in Federal and State funds, and with other revenues, like interest and general entitlements. The District focused its resources on those expenses that benefit the educational opportunities of the students. Instruction-related and pupil services expenses represented 74.0 percent of expenses, demonstrating the District's commitment to students. Overall expenditures increased by 4.2 percent for 2017-2018 from the 2016-2017 fiscal year.

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

Table 3

	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Instruction	\$ 43,030,279	\$ 40,373,065	\$ 37,025,131	\$ 34,444,482
Instruction-related activities	5,501,776	5,346,683	5,311,292	5,156,813
Pupil services	5,250,976	5,164,352	3,464,285	3,531,814
Administration	3,693,418	4,062,347	3,539,841	3,908,300
Plant services	4,680,907	4,293,610	4,613,630	3,737,238
Ancillary and community services	302,609	1,690,552	289,052	1,668,910
Enterprise services	13,056	-	13,056	-
Debt service - interest	3,114,044	2,775,964	3,114,044	2,775,964
Other outgo	144,160	440,878	85,075	315,325
Depreciation	6,965,713	5,632,004	6,965,713	5,632,004
Total	<u>\$ 72,696,938</u>	<u>\$ 69,779,455</u>	<u>\$ 64,421,119</u>	<u>\$ 61,170,850</u>

The District's net expense for instruction, instruction-related, and pupil services increased from 2017 to 2018 maintaining learning and support programs for students. Plant services expense increased by 9.0 percent from 2017 to 2018 demonstrating the District's commitment to maintain its facilities in good repair. The District increased the total cost of instruction and instruction related services by 6.2 percent in providing services to students. Administration decreased in total cost of 9.1 percent from prior year.

ENCINITAS UNION SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$35,819,248, which is a decrease of \$6,187,084 million from last year (Table 4).

Table 4

	Fund Balance			
	July 1, 2017	Revenues and Other Financing Sources	Expenditures and Other Financing Uses	June 30, 2018
General Fund	\$ 21,249,914	\$ 60,663,168	\$ 61,533,934	\$ 20,379,148
Special Reserve Fund for Capital				
Outlay Projects	7,509,371	990,735	1,284,036	7,216,070
Bond Interest and Redemption Fund	5,501,223	4,275,246	4,274,154	5,502,315
Cafeteria Fund	129,266	1,190,886	1,121,381	198,771
Building Fund	7,186,322	39,981	5,628,896	1,597,407
Capital Facilities Fund	323,033	643,217	147,610	818,640
Foundation Fund	107,203	1,615	1,921	106,897
Total	\$ 42,006,332	\$ 67,804,848	\$ 73,991,932	\$ 35,819,248

The primary reasons for this net decrease to our combined fund balances are as follows:

The General Fund decrease is due to a one time purchase of curriculum adoptions for English Language Arts and Dual Language Instruction of \$1.1 million. The Building Fund decrease is due to the completion of Facility modernizations for El Camino Creek (\$1.7 million), Flora Vista (\$0.9 million) and La Costa Heights (\$1.2 million). In addition, the central kitchen was expanded and modernized (\$0.9 million) and the district purchased additional modular classrooms for La Costa Heights (\$0.9 million).

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final amendment to the budget was adopted at the Second Interim submission on March 13, 2018. (A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in our annual report on page 71.)

ENCINITAS UNION SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2018, the District had \$111,149,201 in a broad range of capital assets (net of depreciation), including land, buildings, furniture, and equipment. This amount represents a net increase (including additions, deductions, and depreciation) of \$271,020, or .24 percent, from last year (Table 5).

Table 5

	Governmental Activities		
	2018	2017	Net Change
Land and construction in process	\$ 25,573,684	\$ 30,617,072	\$ (5,043,388)
Buildings and improvements	78,056,829	70,821,792	7,235,037
Furniture and equipment	7,518,688	9,439,317	(1,920,629)
Total	\$ 111,149,201	\$ 110,878,181	\$ 271,020

This year's additions of \$271,020 included several vehicles, cafeteria equipment, and classroom equipment such as computers. No debt was issued for these additions.

Several capital projects are planned for the 2018-2019 year. We anticipate capital for facility projects for playground replacements, site kitchen enhancements, lighting upgrades, carpeting, painting, roofing, and asphalt at various sites throughout the District. We present more information that is detailed about our capital assets in Note 5 to the financial statements.

Long-Term Obligations

At the end of this year, the District had \$80,917,073 in long-term obligations versus \$81,793,103 last year, a decrease of 1.1 percent. Those long-term obligations consisted of:

Table 6

	2018	2017, as restated
	General obligation bonds - net (financed with property taxes)	\$ 71,651,682
Compensated absences	323,758	341,393
Other postemployment benefits	8,941,633	9,018,754
Total	\$ 80,917,073	\$ 81,793,103

The District's general obligation bond rating achieved a rating of AA+ by S&P, which is one notch way from the highest AAA rating possible. The State limits the amount of general obligation debt that districts can issue to 1.25 percent of the assessed value of all taxable property within the District's boundaries. The District's outstanding general obligation debt of \$71,651,682 is significantly below this \$242,035,054 statutorily-imposed limit.

ENCINITAS UNION SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

Other obligations include compensated absences payable, postemployment benefits (not including health benefits) and other long-term obligations. We present more detailed information regarding our long-term obligations in Note 9 of the financial statements.

Net Pension Liability (NPL)

At the end of the year, the District has a net pension liability of \$58,751,112, an increase of \$9,067,193 or 18.2 percent.

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

Encinitas Union School District (EUSD) received a number of accolades during 2017-2018, including:

Apple Distinguished Program Awards:

EUSD received a second, two-year designation (2017-2015 and 2013-2015) as an Apple Distinguished Program for its One-to-One Digital Learning program. This coveted award recognized leaders in the digital learning movement. Schools, school districts and universities nationwide were eligible for this designation, however, only a select number of school districts received this award. As an Apple Distinguished District, EUSD is a host site for schools and districts leadership can learn about how the one-to-one digital learning program is implemented for K-6th grade students. Several District schools are now authorized as Apple Distinguished Schools.

Classroom of the Future Foundation - Achieve Award:

EUSD received the Achieve Award from the Classroom of the Future Foundation for its commitment to providing provides students with the opportunity to design real solutions for people in the real world. The program at the Farm Lab DREAMS (Design, Research, Engineering, Arts, Math, and Science) Campus leverages community partners, technology, and flexible spaces to create a student-centered course which challenges students to make the world a better place.

CSBA Golden Bell Award, Encinitas Environmental Educational (E3) Cluster:

EUSD was chosen by the California School Boards Association (CSBA) to receive the state's leading educational honor, the Golden Bell, for its Encinitas Environmental Educational (E3) Cluster. The E3 Cluster was formed to support the educational initiatives of the government and nonprofit partner organizations who share a common location in our community and a common vision around the importance of teaching learners of all ages about our environment. Original partners included EUSD, the YMCA, the San Diego Botanic Garden, the Leichtag Foundation, the San Dieguito Heritage Museum, and Seacrest Retirement Community. EUSD's facility is a unique learning center called Farm Lab DREAMS Campus. Farm Lab works in conjunction with its E3 Cluster partners to provide real-world, hands-on learning opportunities for all students in the District, as well as to grown produce for the district's Child Nutrition breakfast and lunch program.

Center for Digital Education and the National School Boards Association - Top Ten Ranking in the Digital School Districts Survey:

The Center for Digital Education's 2017-2018 Digital School Districts Survey honors school boards and districts for digital learning initiatives, expanded STEM instruction and labs, and more. EUSD received this award in the mid-sized population districts category.

ENCINITAS UNION SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

North Coastal Consortium for Special Education (NCCSE) Excellence in Special Education Award:

The District's Parent Advisory Council received special recognition from the North Coastal Consortium for Special Education (NCCSE) in the Collaborative Parent Category.

California Civics Learning Awards:

The 2018 Civic Learning Awards, now in its sixth year, celebrate public schools' efforts to engage students in civic learning. The Civic Learning Awards are presented at three levels: Awards of Excellence, Awards of Distinction, and Awards of Merit. El Camino Creek Elementary is one of three schools statewide and the only elementary school to receive an Award of Excellence, the highest level. Flora Vista Elementary School received an Award of Distinction and La Costa Heights Elementary received an Award of Merit.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

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

At the time these financial statements were prepared and audited, the District was aware of several circumstances that could affect its future financial health.

Landmark legislation passed in Year 2013 reformed California school district finance by creating the Local Control Funding Formula (LCFF). The District continues to analyze the impact of the LCFF on funding for our program offerings and services. The LCFF is designed to provide a flexible funding mechanism that links student achievement to state funding levels. The LCFF provides a per pupil base grant amount, by grade span, that is augmented by supplemental funding for targeted student groups in low income brackets, those that are English language learners and foster youth. The State anticipates all school districts to reach the statewide targeted base funding levels by 2020- 2021 but the annual amount funded to meet the target is uncertain.

Factors related to LCFF that the District is monitoring include: (1) estimates of funding in the next budget year and beyond; (2) the Local Control and Accountability Plan (LCAP) that aims to link student accountability measurements to funding allocations; (3) ensuring the integrity of reporting student data through the California Longitudinal Pupil Achievement Data System (CALPADs); and, (4) meeting annual compliance and audit requirements.

State revenues are estimated to increase modestly in 2017-2018 but there is uncertainty about the State's long-term economic growth. According to the Legislative Analyst's Office, there are concerns about a possible mild recession. In addition, purchasing power has not been restored to pre-2017-2018 levels for most school districts as added funding is going to pay for increases in CalPERS and CalSTRS rates increases and rising health care costs.

The District participates in state employee pensions plans, PERS and STRS, and both are underfunded. The District's proportionate share of the liability is reported in the Statement of Net Position as of June 30, 2018. The amount of the liability is material to the financial position of the District. To address the underfunding issues, the pension plans continue to raise employer rates in future years and the increased costs are significant.

ENCINITAS UNION SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact the Assistant Superintendent, Business Services, at Encinitas Union School District, 101 South Rancho Santa Fe Road, Encinitas, California, 92024, or e-mail at ami.shackelford@eusd.net.

ENCINITAS UNION SCHOOL DISTRICT

STATEMENT OF NET POSITION JUNE 30, 2018

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Deposits and investments	\$ 41,590,361	\$ 448,682	\$ 42,039,043
Receivables	1,199,700	6,852	1,206,552
Internal balances (Due from other funds)	46,698	(46,698)	-
Stores inventories	229,045	-	229,045
Capital assets			
Land and construction in process	25,573,684	-	25,573,684
Capital assets being depreciated	153,253,602	-	153,253,602
Accumulated depreciation	(67,678,085)	-	(67,678,085)
Total Capital Assets	<u>111,149,201</u>	<u>-</u>	<u>111,149,201</u>
Total Assets	<u>154,215,005</u>	<u>408,836</u>	<u>154,623,841</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources related to pensions	<u>17,051,145</u>	<u>225,085</u>	<u>17,276,230</u>
LIABILITIES			
Accounts payable	2,207,093	76,371	2,283,464
Accrued interest payable	41,342	-	41,342
Unearned revenue	1,016,679	98,587	1,115,266
Long-term obligations:			
Current portion of long-term obligations other than pensions	4,210,000	-	4,210,000
Noncurrent portion of long-term obligations other than pensions	76,406,410	300,663	76,707,073
Total Long-Term Obligations	<u>80,616,410</u>	<u>300,663</u>	<u>80,917,073</u>
Aggregate net pension liability	<u>58,012,891</u>	<u>738,221</u>	<u>58,751,112</u>
Total Liabilities	<u>141,894,415</u>	<u>1,213,842</u>	<u>143,108,257</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources related to net other postemployment benefits (OPEB) liability	264,639	9,630	274,269
Deferred inflows of resources related to pensions	6,852,570	14,627	6,867,197
Total Deferred Inflows of Resources	<u>7,117,209</u>	<u>24,257</u>	<u>7,141,466</u>
NET POSITION			
Net investment in capital assets	90,673,180	-	90,673,180
Restricted for:			
Debt service	5,460,973	-	5,460,973
Capital projects	818,640	-	818,640
Educational programs	577,423	-	577,423
Other activities	278,674	-	278,674
Unrestricted	(75,554,364)	(604,178)	(76,158,542)
Total Net Position	<u>\$ 22,254,526</u>	<u>\$ (604,178)</u>	<u>\$ 21,650,348</u>

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

ENCINITAS UNION SCHOOL DISTRICT

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

Functions/Programs	Expenses	Program Revenues		Net (Expenses)
		Charges for Services and Sales	Operating Grants and Contributions	Revenues and Changes in Net Position
				Governmental Activities
Governmental Activities:				
Instruction	\$ 43,030,279	\$ 156,632	\$ 5,848,516	\$ (37,025,131)
Instruction-related activities:				
Supervision of instruction	1,813,673	13	94,747	(1,718,913)
Instructional library, media, and technology	1,311,098	-	410	(1,310,688)
School site administration	2,377,005	-	95,314	(2,281,691)
Pupil services:				
Home-to-school transportation	796,110	-	17,589	(778,521)
Food services	1,054,759	672,710	393,792	11,743
All other pupil services	3,400,107	13,667	688,933	(2,697,507)
Administration:				
Data processing	62,218	-	-	(62,218)
All other administration	3,631,200	591	152,986	(3,477,623)
Plant services	4,680,907	42,436	24,841	(4,613,630)
Community services	302,609	11,813	1,744	(289,052)
Enterprise services	13,056	-	-	(13,056)
Interest on long-term obligations	3,114,044	-	-	(3,114,044)
Other outgo	144,160	2,002	57,083	(85,075)
Depreciation (unallocated) ¹	6,965,713	-	-	(6,965,713)
Total Governmental Activities	72,696,938	899,864	7,375,955	(64,421,119)
Business-Type Activities				
Enterprise services	2,616,485	1,997,442	10,942	-
General revenues and subventions:				
				45,773,222
Property taxes, levied for general purposes				4,227,759
Property taxes, levied for debt service				(803)
Taxes levied for other specific purposes				4,759,011
Federal and State aid not restricted to specific purpose:				522,272
Interest and investment earnings				4,169,695
Miscellaneous				<u>59,451,156</u>
				Subtotal, General Revenues
				<u>(4,969,963)</u>
Change in Net Position				
				<u>27,224,489</u>
				<u>\$ 22,254,526</u>

¹ This amount excludes any depreciation that is included in the direct expenses of the various programs.

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

Business- Type Activities	Total
\$ -	\$ (37,025,131)
-	(1,718,913)
-	(1,310,688)
-	(2,281,691)
-	(778,521)
-	11,743
-	(2,697,507)
-	(62,218)
-	(3,477,623)
-	(4,613,630)
-	(289,052)
-	(13,056)
-	(3,114,044)
-	(85,075)
-	(6,965,713)
-	(64,421,119)
<u>(608,101)</u>	<u>(608,101)</u>
-	45,773,222
-	4,227,759
-	(803)
-	4,759,011
-	522,272
3,923	4,173,618
<u>3,923</u>	<u>59,455,079</u>
(604,178)	(5,574,141)
-	27,224,489
<u>\$ (604,178)</u>	<u>\$ 21,650,348</u>

ENCINITAS UNION SCHOOL DISTRICT

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

	General Fund	Special Reserve Fund for Capital Outlay Projects	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS					
Deposits and investments	\$ 23,035,753	\$ 7,215,574	\$ 5,502,315	\$ 2,698,732	\$ 38,452,374
Receivables	1,096,550	33,265	-	55,215	1,185,030
Due from other funds	56,384	-	-	12,120	68,504
Stores inventories	202,051	-	-	26,994	229,045
Total Assets	\$ 24,390,738	\$ 7,248,839	\$ 5,502,315	\$ 2,793,061	\$ 39,934,953
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 2,102,746	\$ 32,769	\$ -	\$ 61,660	\$ 2,197,175
Due to other funds	892,165	-	-	9,686	901,851
Unearned revenue	1,016,679	-	-	-	1,016,679
Total Liabilities	4,011,590	32,769	-	71,346	4,115,705
Fund Balances:					
Nonspendable	212,051	-	-	26,994	239,045
Restricted	577,423	-	5,502,315	2,694,721	8,774,459
Assigned	12,524,204	7,216,070	-	-	19,740,274
Unassigned	7,065,470	-	-	-	7,065,470
Total Fund Balances	20,379,148	7,216,070	5,502,315	2,721,715	35,819,248
Total Liabilities and Fund Balances	\$ 24,390,738	\$ 7,248,839	\$ 5,502,315	\$ 2,793,061	\$ 39,934,953

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

ENCINITAS UNION SCHOOL DISTRICT

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

Total Fund Balance - Governmental Funds	\$ 35,819,248
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	\$ 178,827,286
Accumulated depreciation is	<u>(67,678,085)</u>
Net Capital Assets	111,149,201
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.	
	(41,342)
An internal service fund is used by the District's management to charge the costs of the workers' compensation insurance program to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.	
	4,022,784
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	4,873,242
Net change in proportionate share of net pension liability	880,495
Difference between projected and actual earnings on pension plan investments	421,408
Differences between expected and actual experience in the measurement of the total pension liability	605,913
Changes of assumptions	<u>10,270,087</u>
Total Deferred Outflows of Resources Related to Pensions	17,051,145
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	(4,689,169)
Difference between projected and actual earnings on pension plan investments	(1,220,608)
Differences between expected and actual experience in the measurement of the total pension liability	(799,366)
Changes of assumptions	<u>(143,427)</u>
Total Deferred Inflows of Resources Related to Pensions	(6,852,570)
Deferred outflows and inflows of resources related to OPEB represent a consumption of net position in a future period and is not reported in the District's funds. Deferred outflows and inflows of resources related to OPEB at year-end consist of OPEB contributions subsequent to measurement date.	
	(264,639)

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

ENCINITAS UNION SCHOOL DISTRICT

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

Net pension liability is not due and payable in the current period, and is not reported as a liability in the funds.		\$ (58,012,891)
Long-term obligations, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.		
Long-term obligations at year-end consist of:		
General obligation bonds	\$ (21,120,402)	
Unamortized premium on issuance of bonds	(953,026)	
Compensated absences (vacations)	(323,758)	
Net other postemployment benefits (OPEB) liability	(8,640,970)	
In addition, the District has issued 'capital appreciation' general obligation bonds. The accretion of interest unmatured on the general obligation bonds to date is:		
	<u>(49,578,254)</u>	
Total Long-Term Obligations		<u>(80,616,410)</u>
Total Net Position - Governmental Activities		<u>\$ 22,254,526</u>

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

ENCINITAS UNION SCHOOL DISTRICT

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

	General Fund	Special Reserve Fund for Capital Outlay Projects	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES					
Local Control Funding Formula	\$ 48,766,349	\$ -	\$ -	\$ -	\$ 48,766,349
Federal sources	2,061,114	-	-	436,188	2,497,302
Other State sources	5,135,492	-	21,890	26,248	5,183,630
Other local sources	4,700,213	109,857	4,253,356	1,401,143	10,464,569
Total Revenues	60,663,168	109,857	4,275,246	1,863,579	66,911,850
EXPENDITURES					
Current					
Instruction	42,052,452	-	-	1,921	42,054,373
Instruction-related activities:					
Supervision of instruction	1,805,809	-	-	-	1,805,809
Instructional library, media, and technology	1,342,682	-	-	-	1,342,682
School site administration	2,380,770	-	-	-	2,380,770
Pupil services:					
Home-to-school transportation	796,110	-	-	-	796,110
Food services	37,912	-	-	1,057,509	1,095,421
All other pupil services	3,347,635	-	-	-	3,347,635
Administration:					
Data processing	65,515	-	-	-	65,515
All other administration	3,610,528	-	-	2,750	3,613,278
Plant services	4,333,419	430,307	-	63,872	4,827,598
Community services	302,609	-	-	-	302,609
Other outgo	144,160	-	-	-	144,160
Facility acquisition and construction	421,335	853,729	-	5,773,756	7,048,820
Debt service					
Principal	-	-	4,100,000	-	4,100,000
Interest and other	-	-	174,154	-	174,154
Total Expenditures	60,640,936	1,284,036	4,274,154	6,899,808	73,098,934
Excess (Deficiency) of Revenues Over Expenditures	22,232	(1,174,179)	1,092	(5,036,229)	(6,187,084)
Other Financing Sources (Uses)					
Transfers in	-	880,878	-	12,120	892,998
Transfers out	(892,998)	-	-	-	(892,998)
Net Financing Sources	(892,998)	880,878	-	12,120	-
NET CHANGE IN FUND BALANCES	(870,766)	(293,301)	1,092	(5,024,109)	(6,187,084)
Fund Balance - Beginning	21,249,914	7,509,371	5,501,223	7,745,824	42,006,332
Fund Balance - Ending	\$ 20,379,148	\$ 7,216,070	\$ 5,502,315	\$ 2,721,715	\$ 35,819,248

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

ENCINITAS UNION 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, 2018

Total Net Change in Fund Balances - Governmental Funds **\$ (6,187,084)**

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 outlays exceeds depreciation in the period.

Capital outlays	\$ 7,236,733	
Depreciation expense	(6,965,713)	
Net Expense Adjustment		271,020

In the Statement of Activities, certain operating expenses, such as compensated absences (vacations) and special termination benefits (retirement incentives) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). Vacation paid was more than the amounts earned by \$17,635.

17,635

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.

(718,805)

In the governmental funds, OPEB costs are based on employer contributions made to OPEB plans during the year. However, in the Statement of Activities, OPEB expense is the net effect of all changes in the deferred outflows, deferred inflows and net OPEB liability during the year.

113,145

Payment of principal on long-term obligations 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		4,100,000
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The accompanying notes are an integral part of these financial statements.

ENCINITAS UNION SCHOOL DISTRICT

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, 2018

Governmental funds report the effects of premiums, whereas the amounts are deferred and amortized on the Statement of Activities.

Amortization of premium \$ 79,765

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. The additional interest reported in the Statement of Activities is the result of two factors. First, accrued interest on the general obligation bonds decreased by \$378,836, and second, \$3,398,491 of accumulated interest was accreted on the District's "capital appreciation" general obligation bonds.

(3,019,655)

An Internal Service Fund is used by the District's management to charge the costs of the workers' compensation and dental insurance programs to the individual funds. The net position of the Internal Service Fund is reported with governmental activities.

374,016

Change in Net Position of Governmental Activities \$ (4,969,963)

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

ENCINITAS UNION SCHOOL DISTRICT

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

	Business-Type Activities Enterprise Fund Child Care Fund	Governmental Activities Internal Service Fund
ASSETS		
Current Assets		
Deposits and investments	\$ 448,682	\$ 3,137,987
Receivables	6,852	14,670
Due from other funds	-	880,045
Total Assets	<u>455,534</u>	<u>4,032,702</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows of resources related to pensions	<u>225,085</u>	<u>-</u>
LIABILITIES		
Current Liabilities		
Accounts payable	76,371	9,918
Due to other funds	46,698	-
Unearned revenue	98,587	-
Total Current Liabilities	<u>221,656</u>	<u>9,918</u>
Noncurrent Liabilities		
Net OPEB liability	300,663	-
Net pension liability	738,221	-
Total Liabilities	<u>1,260,540</u>	<u>9,918</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources related to net other postemployment benefits (OPEB) liability	9,630	-
Deferred inflows of resources related to pensions	14,627	-
	<u>24,257</u>	<u>-</u>
NET POSITION		
Restricted	(604,178)	4,022,784
Total Net Position	<u>\$ (604,178)</u>	<u>\$ 4,022,784</u>

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

ENCINITAS UNION SCHOOL DISTRICT

**PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018**

	Business-Type Activities Enterprise Fund	Governmental Activities Self-Insurance Fund
	Child Care Fund	Self-Insurance Fund
OPERATING REVENUES		
Local and intermediate sources	\$ 1,997,442	\$ 880,045
OPERATING EXPENSES		
Payroll costs	2,295,290	-
Supplies and materials	158,194	-
Other operating costs	163,001	554,504
Total Operating Expenses	<u>2,616,485</u>	<u>554,504</u>
Operating Income (Loss)	<u>(619,043)</u>	<u>325,541</u>
NONOPERATING REVENUES		
Interest income	3,923	48,475
Grants	10,942	-
Total Nonoperating Revenues	<u>14,865</u>	<u>48,475</u>
Change in Net Position	(604,178)	374,016
Total Net Position - Beginning, as restated	-	3,648,768
Total Net Position - Ending	<u>\$ (604,178)</u>	<u>\$ 4,022,784</u>

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

ENCINITAS UNION SCHOOL DISTRICT

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018**

	Business-Type Activities Enterprise Fund	Governmental Activities
	Child Care Enterprise	Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	\$ 1,967,943	\$ 869,027
Other operating cash receipts	121,234	-
Cash payments to other suppliers of goods or services	(81,823)	8,794
Cash payments to employees for services	(1,410,536)	-
Other operating cash payments	(163,001)	(554,504)
Net Cash Provided by Operating Activities	<u>433,817</u>	<u>323,317</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Nonoperating grants received	<u>10,942</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	<u>3,923</u>	<u>48,475</u>
Net Increase in Cash and Cash Equivalents	448,682	371,792
Cash and Cash Equivalents - Beginning	-	2,766,195
Cash and Cash Equivalents - Ending	<u>\$ 448,682</u>	<u>\$ 3,137,987</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	\$ (619,043)	\$ 325,541
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Changes in assets and liabilities:		
Receivables	(6,852)	27,260
Due from other fund	-	(38,278)
Deferred outflows of resources	(225,085)	-
Accounts payable	76,371	8,794
Due to other fund	46,698	-
Unearned revenue	98,587	-
Net OPEB Liability	300,663	-
Deferred inflows of resources	24,257	-
Net pension liability	738,221	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 433,817</u>	<u>\$ 323,317</u>

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

ENCINITAS UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Encinitas Union School District (the District) was organized in 1944 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 - sixth as mandated by the State and/or Federal agencies. The District operates nine elementary schools.

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 Encinitas Union School District, this includes general operations, food service, and student related activities of the District.

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 proprietary.

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

Major Governmental Funds

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

Three funds currently defined as special revenue funds in the California State Accounting Manual (CSAM) do not meet the GASB Statement No. 54 special revenue fund definition. Specifically, Fund 14, Deferred Maintenance Fund, Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects, and Fund 20, Special Reserve Fund for Postemployment Benefits, are not substantially composed of restricted or committed revenue sources. While these funds are authorized by statute and will remain open for internal reporting purposes, these funds function effectively as extensions of the General Fund, and accordingly have been combined with the General Fund for presentation in these audited financial statements.

As a result, the General Fund reflects an increase fund balance and expenditures and other financing uses, and a decrease in revenues and other financing sources of \$4,826,924, \$53,944, and \$(307,906), respectively.

ENCINITAS UNION SCHOOL DISTRICT

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

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*).

Non-Major Governmental Funds

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

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 to be used for the acquisition or construction of major capital facilities and other capital assets (other than those financed by proprietary funds and trust funds).

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

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

Permanent Funds The Permanent funds were introduced as part of the governmental financial reporting model established by GASB Statement No. 34 to account for permanent foundations that benefit a district.

Foundation Permanent Fund The Foundation Permanent Fund is used to account for resources received from gifts or bequests pursuant to *Education Code Section 41031* that are restricted to the extent that earnings, but not principal, may be used for purposes that support the District's own programs and where there is a formal trust agreement with the donor.

ENCINITAS UNION SCHOOL DISTRICT

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Proprietary Funds Proprietary funds are used to account for activities that are more business-like than government-like in nature. Business-type activities include those for which a fee is charged to external users or to other organizational units of the local education agency, normally on a full cost-recovery basis. Proprietary funds are generally intended to be self-supporting and are classified as enterprise or internal service. The District has the following proprietary funds:

Enterprise Fund Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods and services. The only enterprise fund of the District accounts for the financial transactions related to the child care operations of the District.

Internal Service Fund Internal Service funds may be used to account for goods or services provided to other funds of the District on a cost-reimbursement basis. The District uses the self-insurance fund for the accounting for other postemployment benefits other than pensions.

Basis of Accounting - Measurement Focus

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

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and program revenues for each segment of the business-type activities of the District and 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*. 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 asset use 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 permanent funds and the restrictions on their use.

ENCINITAS UNION SCHOOL DISTRICT

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

Governmental Funds All governmental funds are accounted for using the flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund 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 reconciliations with brief explanations to better identify the relationship between the government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting, and the governmental fund financial statements, prepared using the flow of current financial resources measurement focus and the modified accrual basis of accounting.

Proprietary Funds Proprietary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. All assets and all liabilities associated with the operation of this fund are included in the statement of net position. The statement of changes in fund net position presents increases (revenues) and decreases (expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary fund.

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

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

ENCINITAS UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

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

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

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Cash equivalents also include cash with county treasury balances for purposes of the statement of cash flows.

Investments

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

Stores Inventories

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

Capital Assets and Depreciation

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

ENCINITAS UNION SCHOOL DISTRICT

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

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

Interfund Balances

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

Compensated Absences

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

Sick leave is accumulated without limit for each employee at the rate of one day for each month worked. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulated sick leave. Employees are never paid for any sick leave balance at termination of employment or any other time. Therefore, the value of accumulated sick leave is not recognized as a liability in the District's financial statements. However, credit for unused sick leave is applicable to all classified school members who retire after January 1, 1999. At retirement, each member will receive .004 year of service credit for each day of unused sick leave. Credit for unused sick leave is applicable to all 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 and proprietary fund financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the governmental funds.

ENCINITAS UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

Debt Issuance Costs and Premiums

In the government-wide financial statements and in the proprietary fund type financial statements, long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund Statement of Net Position. Debt premiums are amortized over the life of the bonds using the straight-line method.

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

Deferred Outflows/Inflows of Resources

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

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

ENCINITAS UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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Postemployment Benefits Other Than Pensions (OPEB)

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

Fund Balances - Governmental Funds

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

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

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

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

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 chief business officer/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.

ENCINITAS UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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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 ten percent of General Fund expenditures and other financing uses.

Net Position

Net position represents the difference between assets and liabilities. Net position net of investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. The government-wide financial statements report \$7,135,710 of restricted net position which is restricted by enabling legislation.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are charges for child care services and to other funds for self-insurance. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Interfund Activity

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 in 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.

Property Tax

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

ENCINITAS UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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Change in Accounting Principles

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

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

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

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

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

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

ENCINITAS UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

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

New Accounting Pronouncements

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

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

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

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

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.

ENCINITAS UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

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

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

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

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

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

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

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

ENCINITAS UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

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

Governmental activities	\$ 41,590,361
Business-type activities	448,682
Total Deposits and Investments	<u>\$ 42,039,043</u>

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

Cash on hand and in banks	\$ 20,000
Cash in revolving	10,000
Investments	42,009,043
Total Deposits and Investments	<u>\$ 42,039,043</u>

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.

ENCINITAS UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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

General Authorizations

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

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

ENCINITAS UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District manages its exposure to interest rate risk by investing in the county pool and purchasing a combination of shorter term and longer term investments and by timing 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:

<u>Investment Type</u>	<u>Reported Amount</u>	<u>Average Days to Maturity</u>
San Diego County Treasury Investment Pool	\$ 42,009,043	345 days

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 investments in the San Diego County Treasury Investment Pool has been rated by Standard and Poor's Investor Service as of June 30, 2018, as AAf.

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 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. At June 30, 2018, the District's bank balance was not exposed to custodial credit risk.

ENCINITAS UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 3 - FAIR VALUE MEASUREMENTS

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

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

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

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

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

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

Investment Type	Reported Amount	Uncategorized
San Diego County Treasury Investment Pool	\$ 42,009,043	\$ 42,009,043

ENCINITAS UNION SCHOOL DISTRICT

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

NOTE 4 - RECEIVABLES

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

	General Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Internal Service Fund
Federal Government				
Categorical aid	\$ 607,900	\$ -	\$ 33,044	\$ -
State Government				
Categorical aid	20,944	-	2,200	-
Lottery	226,338	-	-	-
Due from SELPA	78,487	-	-	-
Local Government				
Interest	124,673	33,265	12,329	14,670
Other Local Sources	38,208	-	7,642	-
Total	<u>\$ 1,096,550</u>	<u>\$ 33,265</u>	<u>\$ 55,215</u>	<u>\$ 14,670</u>

	Total Governmental Activities	Enterprise Fund Child Care Fund
Federal Government		
Categorical aid	\$ 640,944	\$ -
State Government		
Categorical aid	23,144	-
Lottery	226,338	-
Due from SELPA	78,487	-
Local Government		
Interest	184,937	6,852
Other Local Sources	45,850	-
Total	<u>\$ 1,199,700</u>	<u>\$ 6,852</u>

ENCINITAS UNION SCHOOL DISTRICT

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

NOTE 5 - CAPITAL ASSETS

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

	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	\$ 20,468,378	\$ -	\$ -	\$ 20,468,378
Construction in progress	10,148,694	450,555	5,493,943	5,105,306
Total Capital Assets Not Being Depreciated	<u>30,617,072</u>	<u>450,555</u>	<u>5,493,943</u>	<u>25,573,684</u>
Capital Assets Being Depreciated:				
Land improvements	2,882,364	-	-	2,882,364
Buildings and improvements	122,074,385	12,076,659	-	134,151,044
Furniture and equipment	16,016,732	203,462	-	16,220,194
Total Capital Assets Being Depreciated	<u>140,973,481</u>	<u>12,280,121</u>	<u>-</u>	<u>153,253,602</u>
Total Capital Assets	<u>171,590,553</u>	<u>12,730,676</u>	<u>5,493,943</u>	<u>178,827,286</u>
Less Accumulated Depreciation:				
Land improvements	2,662,559	21,989	-	2,684,548
Buildings and improvements	51,472,398	4,819,633	-	56,292,031
Furniture and equipment	6,577,415	2,124,091	-	8,701,506
Total Accumulated Depreciation Governmental Activities	<u>60,712,372</u>	<u>6,965,713</u>	<u>-</u>	<u>67,678,085</u>
Capital Assets, Net	<u>\$ 110,878,181</u>	<u>\$ 5,764,963</u>	<u>\$ 5,493,943</u>	<u>\$ 111,149,201</u>

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

Governmental Activities	
Unallocated	<u>\$ 6,965,713</u>

ENCINITAS UNION SCHOOL DISTRICT

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

NOTE 6 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

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

Due To	Due From			Total
	General Fund	Non-Major Governmental Funds	Internal Service Fund	
General Fund	\$ -	\$ 12,120	\$ 880,045	\$ 892,165
Non-Major Governmental Funds	9,686	-	-	9,686
Enterprise Fund - Child Care Fund	46,698	-	-	46,698
Total	<u>\$ 56,384</u>	<u>\$ 12,120</u>	<u>\$ 880,045</u>	<u>\$ 948,549</u>

The balance of \$9,686 due to the General Fund from the Cafeteria Non-Major Governmental Fund resulted from payroll and indirect costs due.

The balance of \$12,120 due to the Cafeteria Non-Major Governmental Fund from the General Fund resulted from an operating contribution.

The balance of \$880,045 due to the Internal Service Fund from the General Fund resulted from a contribution for premium benefits.

The balance of \$46,698 due to the General Fund from the Enterprise Fund - Child Care Fund resulted from payroll and indirect costs due.

ENCINITAS UNION SCHOOL DISTRICT

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

Operating Transfers

Interfund transfers for the year ended June 30, 2018, consisted of the following:

<u>Transfer To</u>	<u>Transfer From</u> <u>General</u> <u>Fund</u>
Special Reserve Fund for Capital Outlay Projects	\$ 892,998
The General Fund transferred to the Special Reserve Fund for Capital Outlay Projects for capital outlay projects.	\$ 880,878
The General Fund transferred to the Cafeteria Non-Major Governmental Fund a program contribution.	12,120
Total	<u>\$ 892,998</u>

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

NOTE 7 - ACCOUNTS PAYABLE

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

<u>Transfer To</u>	<u>Transfer From</u> <u>General</u> <u>Fund</u>
Special Reserve Fund for Capital Outlay Projects	\$ 892,998
The General Fund transferred to the Special Reserve Fund for Capital Outlay Projects for capital outlay projects.	\$ 880,878
The General Fund transferred to the Cafeteria Non-Major Governmental Fund a program contribution.	12,120
Total	<u>\$ 892,998</u>

ENCINITAS UNION SCHOOL DISTRICT

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

NOTE 8 - UNEARNED REVENUE

Unearned revenue at June 30, 2018, consists of the following:

	General Fund	Enterprise Fund <u>Child Care Fund</u>
Federal financial assistance	\$ 29,237	\$ -
Other local	987,442	98,587
Total	<u>\$ 1,016,679</u>	<u>\$ 98,587</u>

NOTE 9 - LONG-TERM OBLIGATIONS

Summary

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

	Balance June 30, 2017, as restated	Additions	Deductions	Balance June 30, 2018	Due in One Year
Governmental Activities					
General obligation bonds	\$ 71,400,165	\$ 3,398,491	\$ 4,100,000	\$ 70,698,656	\$ 4,210,000
Premium on bond issuance	1,032,791	-	79,765	953,026	-
Accumulated vacation - net	341,393	-	17,635	323,758	-
Net other postemployment benefits (OPEB) liability	8,716,267	479,364	554,661	8,640,970	-
Total	<u>\$ 81,490,616</u>	<u>\$ 3,877,855</u>	<u>\$ 4,752,061</u>	<u>\$ 80,616,410</u>	<u>\$ 4,210,000</u>
Business-Type Activities					
Net other postemployment benefits (OPEB) liability	<u>\$ -</u>	<u>\$ 319,924</u>	<u>\$ 19,261</u>	<u>\$ 300,663</u>	<u>\$ -</u>

Payments for general obligation bonds are made in the Bond Interest and Redemption Fund. Compensated absences are typically liquidated by the fund in which the employee worked. Net other postemployment benefits are generally paid by the General Fund.

ENCINITAS UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds			Bonds Outstanding June 30, 2018
				Outstanding July 1, 2017	Accreted	Redeemed	
08/01/96	8/1/21	3.60 to 5.85	\$ 29,498,820	\$ 18,735,363	\$ 991,996	\$ 4,100,000	\$ 15,627,359
04/20/11	8/1/35	5.43 to 6.75	12,998,720	18,851,807	1,270,979	-	20,122,786
02/05/13	8/1/37	3.00 to 4.35	9,998,411	11,786,134	501,782	-	12,287,916
9/3/15	8/1/39	2.49 to 4.61	13,999,453	14,826,861	633,734	-	15,460,595
4/27/17	8/1/29	2.75 to 4.00	7,200,000	7,200,000	-	-	7,200,000
				<u>\$ 71,400,165</u>	<u>\$ 3,398,491</u>	<u>\$ 4,100,000</u>	<u>\$ 70,698,656</u>

Election of 1995

In August 1996, the District issued current and capital appreciation, General Obligation Bonds, Series 1996, in the amount of \$29,498,820 (accreting to \$69,360,000). The capital appreciation bonds of \$28,748,820 mature through August 2021, with interest rates from 3.60 to 5.85 percent. Proceeds from the sale of the bonds were used to acquire, construct, and improve grades kindergarten through six school facilities and associated support costs authorized by law. At June 30, 2018, the principal balance outstanding was \$15,627,359.

Election of 2010

In April 2011, the District issued capital appreciation, General Obligation Bonds, Series 2011 in the amount of \$12,998,720 (accreting to \$27,670,000). The bonds mature through August 2035, with interest yields from 5.43 to 6.75 percent. Proceeds from the sale of the bonds were used to finance the repair, upgrading, acquisition, construction, and equipping of certain District property and facilities, and refund outstanding capital lease obligations. At June 30, 2018, the principal balance outstanding was \$20,122,786.

In February 2013, the District issued current and capital appreciation, General Obligation Bonds, Series 2013 in the amount of \$9,998,411 (accreting to \$15,150,000). The bonds mature through August 2037, with interest rates from 3.00 to 4.35 percent. Proceeds from the sale of the bonds were used to finance the repair, upgrading, acquisition, construction, and equipping of certain District property and facilities. At June 30, 2018, the principal balance outstanding was \$12,287,916.

In September 2015, the District issued capital appreciation General Obligation Bonds, Series 2015 in the amount of \$13,999,453 (accreted to \$31,570,000). The bonds mature through August 2039, with interest rates from 2.49 to 4.61 percent. Proceeds from the sale of the bonds were used to finance the repair, upgrading, acquisition, construction, and equipping of certain District property and facilities. At June 30, 2018, the principal balance outstanding was \$15,460,595.

In April 2017, the District issued current interest, General Obligation Bonds, Series 2017 in the amount of \$7,200,000. The bonds mature through August 2029, with interest rates from 2.75 to 4.00 percent. Proceeds from the sale of the bonds were used to finance the repair, upgrading, acquisition, construction, and equipping of certain District property and facilities. At June 30, 2018, the principal balance outstanding was \$7,200,000.

ENCINITAS UNION SCHOOL DISTRICT

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

The bonds mature through 2040 as follows:

Fiscal Year	Principal Including Accreted Interest to Date	Accreted Interest	Current Interest to Maturity	Total
2019	\$ 4,090,227	\$ 119,773	\$ 248,050	\$ 4,458,050
2020	3,966,642	358,358	248,050	4,573,050
2021	3,843,956	596,044	248,050	4,688,050
2022	3,726,533	833,467	248,050	4,808,050
2023	3,733,346	966,654	476,269	5,176,269
2024-2028	13,547,012	3,477,988	3,155,663	20,180,663
2029-2033	15,144,027	4,905,973	2,128,160	22,178,160
2034-2038	18,073,011	9,866,989	1,016,168	28,956,168
2039-2040	4,573,902	7,301,098	-	11,875,000
Total	<u>\$ 70,698,656</u>	<u>\$ 28,426,344</u>	<u>\$ 7,768,460</u>	<u>\$ 106,893,460</u>

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2018, amounted to \$323,758.

Net Other Post Employment Benefit (OPEB) Liability

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

OPEB Plan	Net OPEB Liability	Deferred Inflows of Resources	OPEB Expense
District Plan	\$ 8,562,658	\$ 274,269	\$ 222,332
Medicare Premium Payment (MPP) Program	378,975	-	(25,184)
Total	<u>\$ 8,941,633</u>	<u>\$ 274,269</u>	<u>\$ 197,148</u>

The details of each plan are as follows:

District Plan

Plan Administration

The District's governing board administers the Postemployment Benefits Plan (the Plan). The Plan is a single-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB) for eligible retirees and their spouses.

ENCINITAS UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Plan Membership

At June 30, 2018, the Plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits payments	64
Active employees	441
	<hr/>
	505
	<hr/>

Benefits Provided

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

Contributions

The contribution requirements of Plan members and the District are established and may be amended by the District, Encinitas Teachers Association (ETA), and 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 2017-2018, the District contributed \$548,738 to the Plan, which was used for current.

Total OPEB Liability of the District

The District's total OPEB liability of \$8,562,658 was measured as of June 30, 2018, and the total OPEB liability used to calculate the total OPEB liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions

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

Inflation	3.62 percent
Salary increases	3.00 percent, average, including inflation
Discount rate	4.00 percent
Healthcare cost trend rates	5.00 percent for 2018

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

Mortality rates were based on the 2015 CalSTRS Mortality Table for certificated employees and the 2017 CalPERS Active Mortality for Miscellaneous Employees Table for classified employees. Mortality rates vary by age and sex. (Unisex mortality rates are not often used as individual OPEB benefits do not depend on the mortality table used.) If employees die prior to retirement, past contributions are available to fund benefits for employees who live to retirement. After retirement, death results in benefit termination or reduction. Although higher mortality rates reduce service costs, the mortality assumption is not likely to vary from employer to employer.

ENCINITAS UNION SCHOOL DISTRICT

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

The actual assumptions used in the June 30, 2018 valuation were based on the results of an actual experience study for the period July 1, 2017 to June 30, 2018.

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at June 30, 2017	\$ 8,614,595
Service cost	546,524
Interest	261,115
Changes of assumptions or other inputs	(310,838)
Benefit payments	(548,738)
Net change in total OPEB liability	(51,937)
Balance at June 30, 2018	<u>\$ 8,562,658</u>

Changes of assumptions and other inputs reflect a change in the discount rate from 4.00 percent in 2017 to 3.62 percent in 2018.

Changes to benefit terms: there were no changes in the benefit terms since the previous valuation.

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

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

Discount Rate	Net OPEB Liability
1% decrease (2.62%)	\$ 9,209,943
Current discount rate (3.62%)	8,562,658
1% increase (4.62%)	7,966,037

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

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

Healthcare Cost Trend Rates	Net OPEB Liability
1% decrease (5%)	\$ 7,693,305
Current healthcare cost trend rate (6%)	8,562,658
1% increase (7%)	9,582,147

ENCINITAS UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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

For the year ended June 30, 2018, the District recognized OPEB expense of \$222,332. At June 30, 2018, the District reported deferred inflows of resources for changes of assumptions of \$274,269.

	Deferred Inflows of Resources
Changes of assumptions	<u>\$ 274,269</u>

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

Year Ended	Deferred
June 30,	Outflows/(Inflows)
<u>2019</u>	<u>\$ (36,569)</u>
2020	(36,569)
2021	(36,569)
2022	(36,569)
2023	(36,569)
Thereafter	(91,424)
	<u>\$ (274,269)</u>

Medicare Premium Payment (MPP) Program

Plan Description

The Medicare Premium Payment (MPP) Program is administered by the California State Teachers' Retirement System (CalSTRS). The MPP Program is a cost-sharing multiple-employer other postemployment benefit plan (OPEB) established pursuant to Chapter 1032, Statutes 2000 (SB 1435). CalSTRS administers the MPP Program through the Teachers' Health Benefits Fund (THBF).

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

ENCINITAS UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Benefits Provided

The MPP Program pays Medicare Part A premiums and Medicare Parts A and B late enrollment surcharges for eligible members of the State Teachers' Retirement System Plan (STRP) Defined Benefit (DB) Program who were retired or began receiving a disability allowance prior to July 1, 2012 and were not eligible for premium free Medicare Part A. The payments are made directly to the Centers for Medicare and Medicaid Services (CMS) on a monthly basis.

The MPP Program is closed to new entrants as members who retire after July 1, 2012, are not eligible for coverage under the MPP Program.

Contributions

The MPP Program is funded on a pay-as-you go basis from a portion of monthly District contributions. In accordance with California *Education Code* Section 25930, contributions that would otherwise be credited to the DB Program each month are instead credited to the MPP Program to fund monthly program and administrative costs. Total redirections to the MPP Program are monitored to ensure that total incurred costs do not exceed the amount initially identified as the cost of the program.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the OPEB

At June 30, 2018, the District reported a liability of \$378,975 for its proportionate share of the net OPEB liability for the MPP Program. The net OPEB liability was measured as of June 30, 2016, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2017 and June 30, 2016, respectively, was 0.0901 percent and 0.0864 percent, resulting in a net increase in the proportionate share of 0.0037 percent .

For the year ended June 30, 2018, the District recognized OPEB expense of \$(25,184).

ENCINITAS UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Actuarial Methods and Assumptions

The total OPEB liability for the MPP Program as of June 30, 2016 was determined based on a financial reporting actuarial valuation that used the June 30, 2016 assumptions presented in the table below. The June 30, 2017 total OPEB liability was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total OPEB liability to June 30, 2017 using the assumptions listed in the following table:

Measurement Date	June 30, 2017	June 30, 2016
Valuation Date	June 30, 2016	June 30, 2016
Experience Study	July 1, 2010 through June 30, 2016	July 1, 2010 through June 30, 2015
Actuarial Cost Method	Entry age normal	Entry age normal
Investment Rate of Return	3.58%	2.85%
Medicare Part A Premium Cost Trend Rate	3.70%	3.70%
Medicare Part B Premium Cost Trend Rate	4.10%	4.10%

For the valuation as of June 30, 2016, CalSTRS used custom mortality tables based on RP2000 Series tables issued by the Society of Actuaries, adjusted to fit CalSTRS specific experience through June 30, 2015. For the valuation as of June 30, 2017, CalSTRS changed the mortality assumptions based on the July 1, 2010 through June 30, 2015, experience study adopted by the board in February 2017. CalSTRS now uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among the members. The projection scale was set equal to 110 percent of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table, issued by the Society of Actuaries.

Assumptions were made about future participation (enrollment) into the MPP Program because CalSTRS is unable to determine which members not currently participating meet all eligibility criteria for enrollment in the future. Assumed enrollment rates were derived based on past experience and are stratified by age with the probability of enrollment diminishing as the members' age increases. This estimated enrollment rate was then applied to the population of members who may meet criteria necessary for eligibility and are not currently enrolled in the MPP Program. Based on this, the estimated number of future enrollments used in the financial reporting valuation was 571 or an average of 0.32 percent of the potentially eligible population (177,763).

The MPP Program is funded on a pay-as-you-go basis with contributions generally being made at the same time and in the same amount as benefit payments and expenses coming due. Any funds within the MPP Program as of June 30, 2017 and 2016, were to manage differences between estimated and actual amounts to be paid and were invested in the Surplus Money Investment Fund, which is a pooled investment program administered by the State Treasurer.

ENCINITAS UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Discount Rate

The discount rate used to measure the total OPEB liability as of June 30, 2017 and 2016 was 3.58 percent and 2.85 percent, respectively. The MPP Program is funded on a pay-as-you-go basis as described in Note 1, and under the pay-as-you-go method, the OPEB Plan's fiduciary net position was not projected to be sufficient to make projected future benefit payments. Therefore, a discount rate of 3.58 percent and 2.85 percent, which is the Bond Buyer 20-Bond GO Index from Bondbuyer.com as of June 30, 2017 and 2016, respectively, was applied to all periods of projected benefit payments to measure the total OPEB liability.

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following presents the District's proportionate share of the net OPEB 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	MPP Program OPEB Liability
1% decrease (2.58%)	\$ 419,552
Current discount rate (3.58%)	378,975
1% increase (4.58%)	339,506

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Medicare Costs Trend Rates

The following presents the District's proportionate share of the net OPEB liability calculated using the current discount rate, as well as what the net pension liability would be if it were calculated using Medicare costs trend rates that are one percent lower or higher than the current rates:

Medicare Costs Trend Rate	MPP Program OPEB Liability
1% decrease (2.7% Part A and 3.1% Part B)	\$ 342,462
Current Medicare costs trend rate (3.7% Part A and 4.1% Part B)	378,975
1% increase (4.7% Part A and 5.1% Part B)	415,124

ENCINITAS UNION SCHOOL DISTRICT

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

NOTE 10 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Special Reserve Fund for Capital Outlay Projects	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total
Nonspendable					
Revolving cash	\$ 10,000	\$ -	\$ -	\$ -	\$ 10,000
Stores inventories	202,051	-	-	26,994	229,045
Total Nonspendable	<u>212,051</u>	<u>-</u>	<u>-</u>	<u>26,994</u>	<u>239,045</u>
Restricted					
Legally restricted programs	577,423	-	-	278,674	856,097
Capital projects	-	-	-	2,416,047	2,416,047
Debt service	-	-	5,502,315	-	5,502,315
Total Restricted	<u>577,423</u>	<u>-</u>	<u>5,502,315</u>	<u>2,694,721</u>	<u>8,774,459</u>
Assigned					
Board fund balance policy	6,109,581	-	-	-	6,109,581
Deferred maintenance	258,965	-	-	-	258,965
Capital projects	-	7,216,070	-	-	7,216,070
Other assignments	6,155,658	-	-	-	6,155,658
Total Assigned	<u>12,524,204</u>	<u>7,216,070</u>	<u>-</u>	<u>-</u>	<u>19,740,274</u>
Unassigned					
Reserve for economic uncertainties	1,832,874	-	-	-	1,832,874
Remaining unassigned	5,232,596	-	-	-	5,232,596
Total Unassigned	<u>7,065,470</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,065,470</u>
Total	<u>\$ 20,379,148</u>	<u>\$ 7,216,070</u>	<u>\$ 5,502,315</u>	<u>\$ 2,721,715</u>	<u>\$ 35,819,248</u>

ENCINITAS UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 11 - RISK MANAGEMENT

Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2018, the District contracted with San Diego County Schools Risk Management Joint Powers Authority for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

Workers' Compensation

For fiscal year 2018, the District participated in the San Diego County Schools Risk Management Joint Powers Authority, an insurance purchasing pool. The intent of the JPA is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the JPA. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all districts in the JPA. Each participant pays its workers' compensation premium based on its individual rate. A participant will then either receive money from or be required to contribute to the "equity-pooling fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the JPA. Participation in PIPS is limited to districts that can meet the JPA's selection criteria.

Employee Medical Benefits

The District has contracted with the California Schools Employee Benefit Association to provide employee health benefits. Rates are set through an annual calculation process. The District pays a monthly contribution, which is placed in a common fund from which claim payments are made for all participating districts. Claims are paid for all participants regardless of claims flow. The Board of Directors has a right to return monies to a district subsequent to the settlement of all expenses and claims if a district withdraws from the pool.

ENCINITAS UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 12 - EMPLOYEE RETIREMENT SYSTEMS

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

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

<u>Pension Plan</u>	<u>Collective Net Pension Liability</u>	<u>Collective Deferred Outflows of Resources</u>	<u>Collective Deferred Inflows of Resources</u>	<u>Collective Pension Expense</u>
CalSTRS	\$ 46,014,779	\$ 13,303,257	\$ 6,715,198	\$ 3,662,585
CalPERS	12,736,333	3,972,973	151,999	2,521,032
Total	<u>\$ 58,751,112</u>	<u>\$ 17,276,230</u>	<u>\$ 6,867,197</u>	<u>\$ 6,183,617</u>

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

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

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

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

Benefits Provided

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

ENCINITAS UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

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

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

	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	14.43%	14.43%
Required State contribution rate	9.328%	9.328%

Contributions

Required member, District, and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven year period. The contribution rates for each plan for the year ended June 30, 2018, are presented above and the District's total contributions were \$3,821,962.

ENCINITAS UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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

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

Total Net Pension Liability, Including State Share:

District's proportionate share of net pension liability	\$ 46,014,779
State's proportionate share of the net pension liability associated with the District	27,221,954
Total	<u>\$ 73,236,733</u>

The net pension liability was measured as of June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. The District's proportionate share for the measurement period June 30, 2017 and June 30, 2016, respectively, was 0.050 percent and 0.049 percent, resulting in a net increase in the proportionate share of 0.001 percent.

For the year ended June 30, 2018, the District recognized pension expense of \$3,662,585. In addition, the District recognized pension expense and revenue of \$2,740,151 for support provided by the State. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 3,821,962	\$ -
Net change in proportionate share of net pension liability	786,353	4,687,125
Difference between projected and actual earnings on pension plan investments	-	1,225,502
Differences between expected and actual experience in the measurement of the total pension liability	170,167	802,571
Changes of assumptions	8,524,775	
Total	<u>\$ 13,303,257</u>	<u>\$ 6,715,198</u>

ENCINITAS UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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
2019	\$ (1,018,805)
2020	770,934
2021	111,164
2022	(1,088,795)
Total	<u>\$ (1,225,502)</u>

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ 278,840
2020	278,840
2021	278,840
2022	278,837
2023	1,296,022
Thereafter	1,580,220
Total	<u>\$ 3,991,599</u>

ENCINITAS UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Actuarial Methods and Assumptions

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

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

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

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

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%

ENCINITAS UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Discount Rate

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

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

<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% decrease (6.10%)	\$ 67,564,304
Current discount rate (7.10%)	46,014,779
1% increase (8.10%)	28,525,879

California Public Employees Retirement System (CalPERS)

Plan Description

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

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

<https://www.calpers.ca.gov/page/forms-publications>.

ENCINITAS UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Benefits Provided

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

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

	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%	6.50%
Required employer contribution rate	15.531%	15.531%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2018, are presented above and the total District contributions were \$1,115,087.

ENCINITAS UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

As of June 30, 2018, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$12,736,333. The net pension liability was measured as of June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2017 and June 30, 2016, respectively, was 0.0534 percent and 0.0530 percent, resulting in a net increase in the proportionate share of 0.004 percent.

For the year ended June 30, 2018, the District recognized pension expense of \$2,521,032. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 1,115,087	\$ -
Net change in proportionate share of net pension liability	100,665	2,044
Difference between projected and actual earnings on pension plan investments	440,589	-
Differences between expected and actual experience in the measurement of the total pension liability	456,290	-
Changes of assumptions	1,860,342	149,955
Total	<u>\$ 3,972,973</u>	<u>\$ 151,999</u>

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ (11,939)
2020	508,345
2021	185,450
2022	(241,267)
Total	<u>\$ 440,589</u>

ENCINITAS UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ 795,975
2020	801,813
2021	667,510
Total	<u>\$ 2,265,298</u>

Actuarial Methods and Assumptions

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

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

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

ENCINITAS UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

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

Discount Rate

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

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

<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% decrease (6.15%)	\$ 18,739,227
Current discount rate (7.15%)	12,736,333
1% increase (8.15%)	7,756,430

ENCINITAS UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of \$2,213,728 (9.328 percent of annual payroll). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. 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 13 - 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, 2018.

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, 2018.

Construction Commitments

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

Capital Project	Remaining Construction Commitment	Expected Date of Completion
Paul Ecke Elementary School - Painting Project	\$ 76,500	08/31/18
La Costa Heights/Paul Ecke Central Elementary Schools - Asphalt	80,000	10/31/18
Flora Vista Elementary School - Playground	150,000	12/31/18
Paul Ecke Elementary School - Playground	109,000	12/31/18
	<u>\$ 415,500</u>	

ENCINITAS UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

The District is a member of the San Diego County Schools Risk Management Joint Powers Authority public entity risk pool. The District pays an annual premium to the entity for its workers' compensation and property and liability coverage. The relationship between the District and the pool is such that it is not a component unit of the District for financial reporting purposes.

This entity has 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 entity and the District are included in these statements. Audited financial statements are generally available from the respective entities.

During the year ended June 30, 2018, the District made payments totaling \$688,090 for annual premiums.

NOTE 15 - RESTATEMENT OF PRIOR YEAR NET POSITION

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

Statement of Net Position - Internal Service Fund

Net Position - Beginning	\$ 898,969
Exclusion of net OPEB liability from the adoption of GASB Statement No. 45	<u>2,749,799</u>
Net Position - Beginning as restated	<u><u>\$ 3,648,768</u></u>

Statement of Net Position - Governmental Activities

Net Position - Beginning	\$ 33,493,444
Inclusion of net OPEB liability from the adoption of GASB Statement No. 75	<u>(6,268,955)</u>
Net Position - Beginning as restated	<u><u>\$ 27,224,489</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

ENCINITAS UNION SCHOOL DISTRICT

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

	Budgeted Amounts		Actual	Variances -
	Original	Final	(GAAP Basis)	Positive
				(Negative)
				Final
				to Actual
REVENUES				
Local Control Funding Formula	\$ 47,804,670	\$ 48,352,454	\$ 48,766,349	\$ 413,895
Federal sources	1,630,687	1,991,545	2,061,114	69,569
Other State sources	3,667,875	4,433,418	5,135,492	702,074
Other local sources	3,340,217	4,420,642	4,700,213	279,571
Total Revenues ¹	56,443,449	59,198,059	60,663,168	1,465,109
EXPENDITURES				
Current				
Certificated salaries	26,813,614	27,538,793	28,088,528	(549,735)
Classified salaries	8,077,707	8,518,886	8,405,612	113,274
Employee benefits	14,651,399	14,971,807	14,681,766	290,041
Books and supplies	2,215,888	2,782,861	2,339,208	443,653
Services and operating expenditures	5,802,393	6,174,569	6,371,520	(196,951)
Other outgo	200,000	166,185	144,160	22,025
Capital outlay	30,000	262,644	610,142	(347,498)
Total Expenditures ¹	57,791,001	60,415,745	60,640,936	(225,191)
Excess (Deficiency) of Revenues				
Over Expenditures	(1,347,552)	(1,217,686)	22,232	1,239,918
Other Financing Sources (Uses)				
Transfers in	380,878	380,878	-	(380,878)
Transfers out	-	(887,878)	(892,998)	(5,120)
Net Financing Sources (Uses)	380,878	(507,000)	(892,998)	(385,998)
NET CHANGE IN FUND BALANCES	(966,674)	(1,724,686)	(870,766)	853,920
Fund Balance - Beginning	21,249,914	21,249,914	21,249,914	-
Fund Balance - Ending	\$ 20,283,240	\$ 19,525,228	\$ 20,379,148	\$ 853,920

¹ On behalf payments of \$2,213,728 are included in the actual revenues and expenditures, but have not been included in the budgeted amounts. In addition, due to the consolidation of Fund 14, Deferred Maintenance Fund, Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects, and Fund 20, Special Reserve Fund for Postemployment Benefits for reporting purposes into the General Fund, additional revenues and expenditures pertaining to these other funds are included in the Actual (GAAP Basis) revenues and expenditures, however are not included in the original and final General Fund budgets.

See accompanying note to required supplementary information.

ENCINITAS UNION SCHOOL DISTRICT

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

	<u>2018</u>
Total OPEB Liability	
Service cost	\$ 546,524
Interest	261,115
Changes of assumptions	(310,838)
Benefit payments	<u>(548,738)</u>
Net change in total OPEB liability	(51,937)
Total OPEB liability - beginning	<u>8,614,595</u>
Total OPEB liability - ending	<u><u>\$ 8,562,658</u></u>
Covered payroll	<u>N/A¹</u>
District's total OPEB liability as a percentage of covered payroll	<u>N/A¹</u>

¹ The District's OPEB plan is not administered through a trust and contributions are not made based on a measure of pay. Therefore, no measure of payroll is presented.

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

See accompanying note to required supplementary information.

ENCINITAS UNION SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY – MPP PROGRAM FOR THE YEAR ENDED JUNE 30, 2018

Year ended June 30,	<u>2018</u>
District's proportion of the net OPEB liability	<u>0.0901%</u>
District's proportionate share of the net OPEB liability	<u>\$ 378,975</u>
District's covered-employee payroll	<u>N/A¹</u>
District's proportionate share of the net OPEB liability as a percentage of it's covered-employee payroll	<u>N/A¹</u>
Plan fiduciary net position as a percentage of the total OPEB liability	<u>0.01%</u>

¹ As of June 30, 2012, active members are no longer eligible for future enrollment in the MPP Program; therefore, the covered payroll disclosure is not applicable.

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

See accompanying note to required supplementary information.

ENCINITAS UNION SCHOOL DISTRICT

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

	<u>2018</u>	<u>2017</u>
CalSTRS		
District's proportion of the net pension liability	<u>0.0500%</u>	<u>0.0490%</u>
District's proportionate share of the net pension liability	\$ 46,014,779	\$ 39,272,664
State's proportionate share of the net pension liability associated with the District	<u>27,221,954</u>	<u>22,360,518</u>
Total	<u>\$ 73,236,733</u>	<u>\$ 61,633,182</u>
District's covered - employee payroll	<u>\$ 26,468,362</u>	<u>\$ 24,647,074</u>
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	<u>174%</u>	<u>159%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>69%</u>	<u>70%</u>
 CalPERS		
District's proportion of the net pension liability	<u>0.0534%</u>	<u>0.0530%</u>
District's proportionate share of the net pension liability	<u>\$ 12,736,333</u>	<u>\$ 10,411,255</u>
District's covered - employee payroll	<u>\$ 6,839,178</u>	<u>\$ 6,328,919</u>
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	<u>186%</u>	<u>165%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>72%</u>	<u>74%</u>

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

See accompanying note to required supplementary information.

<u>2016</u>	<u>2015</u>
<u>0.0560%</u>	<u>0.0580%</u>
\$ 37,648,203	\$ 33,981,002
<u>19,911,696</u>	<u>20,519,196</u>
<u>\$ 57,559,899</u>	<u>\$ 54,500,198</u>
<u>\$ 25,361,982</u>	<u>\$ 26,213,193</u>
<u>148%</u>	<u>130%</u>
<u>74%</u>	<u>77%</u>
<u>0.0520%</u>	<u>0.0500%</u>
<u>\$ 7,724,889</u>	<u>\$ 5,684,758</u>
<u>\$ 5,813,049</u>	<u>\$ 5,311,849</u>
<u>133%</u>	<u>107%</u>
<u>79%</u>	<u>83%</u>

ENCINITAS UNION SCHOOL DISTRICT

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

	<u>2018</u>	<u>2017</u>
CalSTRS		
Contractually required contribution	\$ 3,821,962	\$ 3,329,720
Contributions in relation to the contractually required contribution	<u>(3,821,962)</u>	<u>(3,329,720)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered - employee payroll	<u>\$ 26,486,223</u>	<u>\$ 26,468,362</u>
Contributions as a percentage of covered - employee payroll	<u>14.43%</u>	<u>12.58%</u>
 CalPERS		
Contractually required contribution	\$ 1,115,087	\$ 949,825
Contributions in relation to the contractually required contribution	<u>(1,115,087)</u>	<u>(949,825)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered - employee payroll	<u>\$ 7,179,750</u>	<u>\$ 6,839,178</u>
Contributions as a percentage of covered - employee payroll	<u>15.531%</u>	<u>13.888%</u>

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

See accompanying note to required supplementary information.

<u>2016</u>	<u>2015</u>
\$ 2,644,631	\$ 2,252,144
<u>(2,644,631)</u>	<u>(2,252,144)</u>
<u>\$ -</u>	<u>\$ -</u>
\$ 24,647,074	\$ 25,361,982
<u>10.73%</u>	<u>8.88%</u>

\$ 749,787	\$ 684,254
<u>(749,787)</u>	<u>(684,254)</u>
<u>\$ -</u>	<u>\$ -</u>
\$ 6,328,919	\$ 5,813,049
<u>11.847%</u>	<u>11.771%</u>

ENCINITAS UNION SCHOOL DISTRICT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2018

NOTE 1 - PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

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

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

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

At June 30, 2018, the District's General Fund exceeded the budgeted amount in total as follows:

General Fund	Expenditures and Other Uses		
	Budget	Actual	Excess
Certificated salaries	\$ 27,538,793	\$ 28,088,528	\$ 549,735
Capital outlay	\$ 262,644	\$ 610,142	\$ 347,498
Transfers out	\$ 887,878	\$ 892,998	\$ 5,120

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

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

Changes of Assumptions - The plan discount rate assumption was changed from 4.00 percent to 3.62 percent since the previous valuation.

Schedule of the District's Proportionate Share of the Net OPEB Liability - MPP Program

This schedule presents information on the District's proportionate share of the net OPEB Liability – MPP Program and the plans' fiduciary net position. In the future, as data becomes available, ten years of information will be presented.

Changes in Benefit Terms - There were no changes in the benefit terms since the previous valuation.

Changes of Assumptions - The plan rate of investment return assumption was changed from 2.85 percent to 3.58 percent since the previous valuation.

ENCINITAS UNION SCHOOL DISTRICT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2018

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

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

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

Changes of Assumptions – The CalSTRS plan rate of investment return assumption was changed from 7.60 percent to 7.10 percent since the previous valuation. The CalPERS plan rate of investment return assumption was changed from 7.65 percent to 7.15 percent since the previous valuation.

Schedule of District Contributions

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

SUPPLEMENTARY INFORMATION

ENCINITAS UNION SCHOOL DISTRICT

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

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education (CDE)			
Title I, Part A - Low Income and Neglected	84.010	14329	\$ 581,668
Title II, Part A - Supporting Effective Instruction Local Grants	84.367	14341	169,249
Title II, Part A - Administrative Training	84.367	14344	1,500
Title III, English Learner Student Program	84.365	14346	77,137
Title III, Immigrant Student Program	84.365	15146	15,226
Passed through North Coastal Consortium for Special Education			
Special Education (IDEA) Cluster			
Local Assistance Entitlement, Part B, Sec 611	84.027	13379	818,228
Local Assistance, Part B, Sec 611, Private Schools ISPs	84.027	10115	11,955
Preschool Local Entitlement, Part B, Sec 611	84.027A	13682	154,174
Preschool Grants, Part B, Sec 619	84.173	13430	49,869
Preschool Staff Development, Part B, Sec 619	84.173A	13431	528
Mental Health Allocation Plan, Part B Sec 611	84.027	15197	59,291
Subtotal Special Education (IDEA) Cluster			<u>1,094,045</u>
Total U.S. Department of Education			<u>1,938,825</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through California Department of Health Services			
Medi-Cal Assistance Program:			
Medi-Cal Billing Option	93.778	10013	<u>93,747</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed through CDE:			
Child Nutrition Program Cluster:			
National School Lunch	10.555	13396	350,556
Especially Needy Breakfast	10.553	13526	37,802
Food Distribution	10.555	13396	47,830
Total U.S. Department of Agriculture			<u>436,188</u>
Total Expenditures of Federal Awards			<u>\$ 2,468,760</u>

[1] Pass-Through Entity Identifying Number not available.

See accompanying note to supplementary information.

ENCINITAS UNION SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2018

ORGANIZATION

The Encinitas Union School District was formed in 1944 and encompasses 24.6 square miles. It is located in the north coastal portion of San Diego County and serves the City of Encinitas and the La Costa area of Carlsbad. The District operates nine elementary schools. There were no boundary changes during the year.

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Marla Strich	President	2018
Emily Andrade	Vice President	2018
Leslie Schneider	Clerk	2020
Rimga Viskanta	Member	2020
Greg Sonken	Member	2018

ADMINISTRATION

Dr. Timothy Baird	Superintendent
Andree Grey	Assistant Superintendent, Educational Services
Angelica Lopez	Assistant Superintendent, Administrative Services
Ami Shackelford	Assistant Superintendent, Business Services

See accompanying note to supplementary information.

ENCINITAS UNION SCHOOL DISTRICT

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

	Final Report	
	Amended Second Period Report	Annual Report
Regular ADA		
Transitional kindergarten through third	2,858.57	2,858.53
Fourth through sixth	2,201.62	2,200.28
Total Regular ADA	<u>5,060.19</u>	<u>5,058.81</u>
Extended Year Special Education		
Transitional kindergarten through third	21.44	21.44
Fourth through sixth	16.08	16.08
Total Extended Year Special Education	<u>37.52</u>	<u>37.52</u>
Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	0.14	0.40
Fourth through sixth	5.35	5.28
Total Special Education, Nonpublic, Nonsectarian Schools	<u>5.49</u>	<u>5.68</u>
Extended Year Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	0.11	-
Fourth through sixth	0.27	0.38
Total Special Education, Nonpublic, Nonsectarian Schools	<u>0.38</u>	<u>0.38</u>
Total School District	<u><u>5,103.58</u></u>	<u><u>5,102.39</u></u>
Basic Aid - District of Choice ADA		
Transitional kindergarten through third	40.01	41.44
Fourth through sixth	21.70	20.81
Total District of Choice	<u>61.71</u>	<u>62.25</u>
Total ADA	<u><u>5,165.29</u></u>	<u><u>5,164.64</u></u>

See accompanying note to supplementary information.

ENCINITAS UNION SCHOOL DISTRICT

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

<u>Grade Level</u>	1986-87	2017-18	<u>Number of Days</u>		<u>Status</u>
	<u>Minutes Requirement</u>	<u>Actual Minutes</u>	<u>Traditional Calendar</u>	<u>Multitrack Calendar</u>	
Kindergarten	36,000	54,510	180	N/A	Complied
Grades 1 - 3	50,400				
Grade 1		54,510	180	N/A	Complied
Grade 2		54,510	180	N/A	Complied
Grade 3		54,510	180	N/A	Complied
Grades 4 - 6	54,000				
Grade 4		54,510	180	N/A	Complied
Grade 5		54,510	180	N/A	Complied
Grade 6		54,510	180	N/A	Complied

See accompanying note to supplementary information.

ENCINITAS UNION SCHOOL DISTRICT

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

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

See accompanying note to supplementary information.

ENCINITAS UNION SCHOOL DISTRICT

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

	(Budget) 2019 ¹	2018	2017, as restated	2016
GENERAL FUND ³				
Revenues	\$ 59,554,403	\$ 60,590,196	\$ 60,043,628	\$ 60,317,787
Other sources	-	380,878	-	-
Total Revenues and Other Sources	59,554,403	60,971,074	60,043,628	60,317,787
Expenditures	61,251,062	60,586,941	61,399,553	54,927,370
Other uses and transfers out	7,000	892,999	-	-
Total Expenditures and Other Uses	61,258,062	61,479,940	61,399,553	54,927,370
INCREASE (DECREASE) IN FUND BALANCE	\$ (1,703,659)	\$ (508,866)	\$ (1,355,925)	\$ 5,390,417
ENDING FUND BALANCE	\$ 13,848,565	\$ 15,552,224	\$ 16,061,090	\$ 17,417,015
AVAILABLE RESERVES ²	\$ 6,933,286	\$ 7,065,470	\$ 9,086,890	\$ 4,111,324
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO	11.32%	11.49%	14.80%	7.49%
LONG-TERM OBLIGATIONS ⁴	N/A	\$ 139,668,185	\$ 131,477,022	\$ 113,817,750
K-12 AVERAGE DAILY ATTENDANCE AT P-2	5,097	5,104	5,065	5,081

The General Fund balance has decreased by \$1,864,791 over the past two years. The fiscal year 2018-2019 budget projects a further decrease of \$1,703,659 (11.0 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).

The District has incurred operating deficits in two of the past three years and anticipates incurring an operating deficit during the 2018-2019 fiscal year. Total long-term obligations have increased by \$25,850,435 over the past two years.

Average daily attendance has increased by 23 over the past two years. A decline of seven ADA is anticipated during fiscal year 2018-2019.

¹ Budget 2019 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 and the Special Reserve Fund for Other Than Capital Outlay Projects.

³ General Fund amounts do not include activity related to the consolidation of the Deferred Maintenance Fund, the Special Reserve Fund for Other than Capital Outlay Projects, and the Special Reserve Fund for Postemployment Benefits as required by GASB Statement No. 54.

⁴ Long-term obligations have been restated due to the implementation of GASB Statement No. 75.

See accompanying note to supplementary information.

ENCINITAS UNION SCHOOL DISTRICT

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

	Cafeteria Fund	Building Fund	Capital Facilities Fund	Foundation Permanent Fund	Total Non-Major Governmental Funds
ASSETS					
Deposits and investments	\$ 165,322	\$ 1,600,510	\$ 826,490	\$ 106,410	\$ 2,698,732
Receivables	43,349	7,369	4,010	487	55,215
Due from other funds	12,120	-	-	-	12,120
Stores inventories	26,994	-	-	-	26,994
Total Assets	\$ 247,785	\$ 1,607,879	\$ 830,500	\$ 106,897	\$ 2,793,061
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 39,328	\$ 10,472	\$ 11,860	\$ -	\$ 61,660
Due to other funds	9,686	-	-	-	9,686
Total Liabilities	49,014	10,472	11,860	-	71,346
Fund Balances:					
Nonspendable	26,994	-	-	-	26,994
Restricted	171,777	1,597,407	818,640	106,897	2,694,721
Total Fund Balances	198,771	1,597,407	818,640	106,897	2,721,715
Total Liabilities and Fund Balances	\$ 247,785	\$ 1,607,879	\$ 830,500	\$ 106,897	\$ 2,793,061

See accompanying note to supplementary information.

ENCINITAS UNION SCHOOL DISTRICT

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

	Cafeteria Fund	Building Fund	Capital Facilities Fund	Foundation Permanent Fund	Total Non-Major Governmental Funds
REVENUES					
Federal sources	\$ 436,188	\$ -	\$ -	\$ -	\$ 436,188
Other State sources	26,248	-	-	-	26,248
Other local sources	716,330	39,981	643,217	1,615	1,401,143
Total Revenues	<u>1,178,766</u>	<u>39,981</u>	<u>643,217</u>	<u>1,615</u>	<u>1,863,579</u>
EXPENDITURES					
Current					
Instruction	-	-	-	1,921	1,921
Pupil services					
Food services	1,057,509	-	-	-	1,057,509
Administration					
All other administration	-	-	2,750	-	2,750
Plant services	63,872	-	-	-	63,872
Facility acquisition and construction	-	5,628,896	144,860	-	5,773,756
Total Expenditures	<u>1,121,381</u>	<u>5,628,896</u>	<u>147,610</u>	<u>1,921</u>	<u>6,899,808</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>57,385</u>	<u>(5,588,915)</u>	<u>495,607</u>	<u>(306)</u>	<u>(5,036,229)</u>
Other Financing Sources					
Transfers in	12,120	-	-	-	12,120
NET CHANGE IN FUND BALANCES	69,505	(5,588,915)	495,607	(306)	(5,024,109)
Fund Balance - Beginning	129,266	7,186,322	323,033	107,203	7,745,824
Fund Balance - Ending	<u>\$ 198,771</u>	<u>\$ 1,597,407</u>	<u>\$ 818,640</u>	<u>\$ 106,897</u>	<u>\$ 2,721,715</u>

See accompanying note to supplementary information.

ENCINITAS UNION SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2018

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

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

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

Description	CFDA	
	<u>Number</u>	<u>Amount</u>
Total Federal Revenues From the Statement of Revenues, Expenditures, and Changes in Fund Balances:		
Medi-Cal Billing Option	93.778	\$ 2,497,302 (28,542)
Total Schedule of Expenditures of Federal Awards		<u>\$ 2,468,760</u>

Local Education Agency Organization Structure

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

Schedule of Average Daily Attendance (ADA)

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

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.

ENCINITAS UNION SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2018

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

Unmodified Opinion

In our opinion, Encinitas Union School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2018.

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

	<u>Procedures Performed</u>
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
Apprenticeship: Related and Supplemental Instruction	No, see below
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After/Before School Education and Safety Program:	
General Requirements	Yes
After School	Yes
Before School	Yes
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
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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

ENCINITAS UNION SCHOOL DISTRICT

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

FINANCIAL STATEMENTS

Type of auditor's report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>None Reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

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

Identification of major Federal programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
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:	<u>\$ 750,000</u>
Auditee qualified as low-risk auditee?	<u>No</u>

STATE AWARDS

Type of auditor's report issued on compliance for State programs:	<u>Unmodified</u>
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ENCINITAS UNION SCHOOL DISTRICT

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

None reported.

ENCINITAS UNION SCHOOL DISTRICT

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

None reported.

ENCINITAS UNION SCHOOL DISTRICT

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

None reported.

ENCINITAS UNION SCHOOL DISTRICT

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

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

Financial Statement Findings

2017-001 30000

Criteria or Specific Requirements

Expenditures processed through the warrant disbursement process should obtain proper approval and funds should be encumbered prior to purchases of goods or services. For proper budgeting practices, the District should also be monitoring any open purchase orders to verify total approved purchase order amount is not exceeded.

Condition

During our testing of internal controls over cash disbursements, it was noted that warrant disbursements were not obtaining proper pre-approval prior to the expenditures being incurred.

Questioned costs

Perspective

Three of 39 warrant disbursements did not appear to contain documentation of proper pre-approval.

Context

Effect

The possibility to circumvent the purchasing process and not encumber funds.

Cause

Insufficient controls over purchasing and budgeting cycles.

Recommendation

We recommend that District management reiterates the importance of internal controls by providing periodic training on budgeting and encumbrances to all departments. It is best practice for budgeting to use purchase orders and encumber funds for all expenditures made.

Current Status

Implemented.

ENCINITAS UNION SCHOOL DISTRICT

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

2017-002 30000

Criteria or Specific Requirements

Personnel files should contain proper approval of current position and salary schedule placement in order to maintain sound internal controls over the payroll transaction cycle and ensure employees are distributed the proper amount.

Condition

Following review of employee files, we noted that some employees did not have proper approval for current position in their personnel file. In addition, some of the employees selected for testing did not have Personnel Actions Forms (PAF) specifically putting them at a particular column, promotion, or new job classification to document formal approval of salary schedule placement. Auditors were ultimately able to review transcripts and years of service to determine that the gross pay detail was accurate. We recommend going forward that PAF or alternative forms are used in every instance when an employee's salary schedule placement or stipends are adjusted to document review and approval prior to changes being made in PeopleSoft.

Perspective

One out of 25 employee files reviewed did not have proper approval for current position in their personnel file.

Context

Effect

The possibility to circumvent the payroll disbursement process and misappropriate funds.

Cause

Insufficient controls over human resources and payroll transaction cycles.

Recommendation

We recommend that the District strengthen internal controls and adhere to the system of documenting approved personnel action forms in personnel files for these specific instances. In addition, we recommend to the District that an audit of all files be conducted for proper pay approval when they move to the new PAF system.

Current Status

Implemented.