VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

JUNE 30, 2018

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

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FINANCIAL SECTION

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

VALUE THE *difference*

INDEPENDENT AUDITOR'S REPORT

Governing Board
Victor Valley Union High School District
Victorville, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Victor Valley Union High 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.

10681 Foothill Blvd., Suite 300, Rancho Cucamonga, CA 91730 P 909.466.4410 F 909.466.4431 W vtdcpa.com

Opinions

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

Emphasis of Matter - Change in Accounting Principles

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 13, budgetary comparison schedule on page 71, schedule of changes in the District's net OPEB liability and related ratios on page 72, schedule of OPEB investment returns on page 73, schedule of the District's proportionate share of the net OPEB liability - MPP program on page 74, schedule of the District's proportionate share of the net pension liability on page 75, and the schedule of District contributions on page 76, 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 Victor Valley Union High School District's basic financial statements. The accompanying supplementary information such as the combining and individual non-major fund financial statements and Schedule of Expenditures of Federal Awards, as required by *Title 2 U.S. Code of Federal Regulations (CFR)* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* and the other supplementary information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2018, on our consideration of the Victor Valley Union High 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 Victor Valley Union High 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 Victor Valley Union High School District's internal control over financial reporting and compliance.

VAVRINEK, TRINE, DAY + CO. LLP

Rancho Cucamonga, California
December 13, 2018

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT
SUPERINTENDENT'S OFFICE
16350 Mojave Drive, Victorville, CA 92395-3655
760.955.3201
Ron Williams, Ed.D, Superintendent

This section of Victor Valley Union High School District's (the District) (2017-2018) 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. These statements include all assets of the District, as well as all liabilities (including long-term obligations). Additionally, certain eliminations have occurred as prescribed by the statements in regards to interfund activity, payables, and receivables.

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

> The *Governmental Funds* are prepared using the current financial resources measurement focus and modified accrual basis of accounting.
>
> The *Fiduciary 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 Victor Valley Union High School District.

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Position and the Statement of Activities

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

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

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

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

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

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

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

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

THE DISTRICT AS A TRUSTEE

Reporting the District's Fiduciary Responsibilities

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

THE DISTRICT AS A WHOLE

Net Position

The District's net position was $73,465,437 for the fiscal year ended June 30, 2018. Of this amount, $(107,762,483) 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 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	
	2018	(as restated) 2017
Assets		
Current and other assets	$ 92,704,732	$ 89,130,201
Capital assets	288,281,565	282,237,695
Total Assets	380,986,297	371,367,896
Deferred Outflows of Resources	52,130,350	42,688,775
Liabilities		
Current liabilities	15,744,087	13,215,232
Long-term obligations (includes current portion)	230,608,266	236,169,681
Aggregate pension liability	108,988,592	89,775,405
Total Liabilities	355,340,945	339,160,318
Deferred Inflows of Resources	4,310,265	3,022,442
Net Position		
Net investment in capital assets	151,634,774	180,697,752
Restricted	29,593,146	21,711,700
Unrestricted (deficit)	(107,762,483)	(130,535,541)
Total Net Position	$ 73,465,437	$ 71,873,911

The $(107,762,483) in unrestricted deficit of governmental activities represents the *accumulated* results of all past years' operations. Unrestricted net position is 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. The unrestricted net position decreased by 17.4 percent ($107,762,483 deficit compared to $130,535,541 deficit in the prior year).

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 15. 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	
	2018	2017
Revenues		
Program revenues:		
Charges for services	$ 1,565,132	$ 1,404,428
Operating grants and contributions	23,301,667	21,683,501
Capital grants and contributions	6,616,492	2,794
General revenues:		
Federal and State aid, not restricted	99,281,885	95,212,711
Property taxes	25,771,803	26,803,895
Other general revenues	3,928,504	590,188
Total Revenues	160,465,483	145,697,517
Expenses		
Instruction	83,900,780	73,746,954
Instruction-related	13,936,846	13,540,998
Pupil services	17,680,072	16,343,704
Administration	7,197,521	7,362,268
Plant services	13,819,308	13,097,785
All other services	22,339,430	22,909,254
Total Expenses	158,873,957	147,000,963
Change in Net Position	$ 1,591,526	$ (1,303,446)

Governmental Activities

As reported in the *Statement of Activities* on page 15, the cost of all of our governmental activities this year was $158,873,957. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only $25,771,803. The remaining cost was paid by those who benefited from the programs; $1,565,132, or by other governments and organizations who subsidized certain programs with $29,918,159 in grants and contributions. We paid for the remaining "public benefit" portion of our governmental activities with State funds, and with other revenues, like interest and general entitlements.

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

Table 3

	Total Cost of Services		Net Cost of Services	
	2018	2017	2018	2017
Instruction and instruction-related	$ 97,837,626	$ 87,287,952	$ 74,718,516	$ 71,628,811
Pupil services	17,680,072	16,343,704	11,712,060	10,738,160
Administration	7,197,521	7,362,268	6,298,670	6,785,733
Plant services	13,819,308	13,097,785	13,774,953	13,038,203
All other services	22,339,430	22,909,254	20,886,467	21,719,333
Total	$ 158,873,957	$ 147,000,963	$ 127,390,666	$ 123,910,240

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of $77,656,274 which is an increase of $1,204,523 or 1.6 percent, from last year (Table 4).

Table 4

	Balances and Activity			
	July 1, 2017	Revenues and Other Financing Sources	Expenditures and Other Financing Uses	June 30, 2018
General Fund	$ 31,562,783	$ 133,511,762	$ 133,958,566	$ 31,115,979
Special Reserve Fund for Capital Outlay Projects	7,898,275	3,991,256	2,276,317	9,613,214
Capital Projects Fund for Blended Component Units	20,281,753	838,374	9,398,323	11,721,804
Bond Interest and Redemption Fund	11,729,701	11,720,416	10,369,744	13,080,373
Adult Education Fund	330,768	423,461	525,587	228,642
Cafeteria Fund	2,200,217	5,135,410	5,237,399	2,098,228
Building Fund	603,751	7,502	36,996	574,257
Capital Facilities Fund	1,542,947	1,299,508	412,023	2,430,432
County School Facilities Fund	226,397	6,616,491	431,257	6,411,631
Debt Service Fund	75,159	2,257,968	1,951,413	381,714
Total	$ 76,451,751	$ 165,802,148	$ 164,597,625	$ 77,656,274

The primary reasons for the increases/decreases to the Districts' fund balances are:

1. The General Fund increased due to the carryover of one-time funds and additional revenue as the Districts ADA increased for the second year in a row.
2. Capital Projects Funds decreased as a result of the District working on the COP projects.
3. Bond Interest and Redemption Funds increased due to refunding of several bond issuances two years ago. These funds will balance out over time with the San Bernardino County Auditor-Controller's office.

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to manage unexpected changes in revenues and expenditures. The final amendment to the budget was adopted on February 28, 2018. (A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in our audit report on page 71.)

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2018, the District had $288,281,565 in a broad range of capital assets (net of depreciation), including land, buildings, and furniture and equipment. This amount represents a net increase (including additions, deductions, and depreciation) of $6,043,870 or 2.1 percent, from last year (Table 5).

Table 5

	Governmental Activities	
	2018	2017
Land and construction in progress	$ 16,833,930	$ 14,329,357
Buildings and improvements, net of depreciation	266,558,361	264,934,416
Furniture and equipment, net of depreciation	4,889,274	2,973,922
Total	$ 288,281,565	$ 282,237,695

This year's increase of $6,043,870 in capital asset is primarily a result of improvements and purchases made for the new Victor Valley High School Administration Building.

Long-Term Obligations

At the end of this year, the District had $230,608,266 in long-term obligations outstanding versus $236,169,681 last year, a decrease of 2.4 percent. These long-term obligations consisted of:

Table 6

	Governmental Activities	
	2018	(as restated) 2017
General obligation bonds - net	$ 163,035,032	$ 167,029,165
Certificates of participation - net	24,306,406	25,672,933
Compensated absences	2,748,198	2,473,755
Equipment lease financing	2,705,768	3,282,388
Voluntary retirement program	1,819,268	2,327,315
Net other postemployment benefits (OPEB) liability	35,993,594	35,384,125
Total	$ 230,608,266	$ 236,169,681

General Obligation Bonds, Capital Lease, and Certificates of Participation obligations decreased by the required annual principal payment. Other obligations include compensated absences, payable equipment lease financing, and voluntary retirement payable, which combined, declined by $810,224. We present more detailed information regarding our long-term obligations in Note 9 of the financial statements.

Net Pension Liability (NPL)

The District had a net pension liability of $108,988,592 and $89,775,405 at June 30, 2018 and 2017, respectively, an increase of $19,213,187, or 21.4%.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

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

The key assumptions in our revenue forecast are the following:

1. Local Control Funding Formula income will increase based the Department of Finance estimates.
2. Federal and State income are computed using the 2017-2018 amounts adjusted to reflect anticipated changes in enrollment data for the respective qualifying populations.
3. Other Local Income can tend to be volatile. A large portion of revenues are one-time dollars that the District will use over the next two years.
4. Enrollment/Average Daily Attendance (ADA) is expected to increase again in 2018-2019. Next year's budget will be based on the prior year ADA. Until the District actually see increased enrollment, it will maintain a conservative estimate.
5. Increases in the CalSTRS and CalPERS retirement systems will continue to rise.

The District has experienced a significant increase in ADA over the last two years which has resulted in increased revenue. The 2018-2019 First Interim Report Multi-Year Projections indicate that the District should be able to meet its financial obligations for the current and two subsequent years. Unfunded liabilities in the form of retirement and post-employment health benefits remain a pressure on the budget, but the District is confident that measures can be implemented in the coming years to address these long-term obligations.

The projected ending fund balance in the third year of the First Interim Report shows a 3.86 percent reserve. The Board of Trustees has approved a Positive Certification of the First Interim Report.

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 Steve Atkeson, Director, Business Services, at Victor Valley Union High School District, 16350 Mojave Drive, Victorville, California 92395, (760) 955-3201, or e-mail at SAtkeson@vvusd.org.

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

STATEMENT OF NET POSITION
JUNE 30, 2018

	Governmental Activities
ASSETS	
Deposits and investments	$ 85,650,772
Receivables	6,789,001
Prepaid expenses	162,002
Stores inventories	102,957
Capital assets	
Nondepreciable capital assets	16,833,930
Capital assets being depreciated	361,249,966
Accumulated depreciation	(89,802,331)
Total Capital Assets	288,281,565
Total Assets	380,986,297
DEFERRED OUTFLOWS OF RESOURCES	
Deferred charges on refunding	11,132,309
Deferred outflows of resources related to net other postemployment benefits (OPEB) liability	8,130
Deferred outflows of resources related to pensions	40,989,911
Total Deferred Outflows of Resources	52,130,350
LIABILITIES	
Accounts payable	14,087,292
Accrued interest payable	695,629
Unearned revenue	961,166
Long-term obligations	
Current portion of long-term obligations other than pensions	10,553,362
Noncurrent portion of long-term obligations other than pensions	220,054,904
Total Long-Term Obligations	230,608,266
Aggregate net pension liability	108,988,592
Total Liabilities	355,340,945
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to net other postemployment benefits (OPEB) liability	681,344
Deferred inflows of resources related to pensions	3,628,921
Total Deferred Inflows of Resources	4,310,265
NET POSITION	
Net investment in capital assets	151,634,774
Restricted for:	
Debt service	12,766,458
Capital projects	8,842,063
Educational programs	5,786,573
Other activities	2,198,052
Unrestricted (Deficit)	(107,762,483)
Total Net Position	$ 73,465,437

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

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

Functions/Programs	Expenses	Program Revenues: Charges for Services and Sales	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expenses) Revenues and Changes in Net Position: Governmental Activities
Governmental Activities:					
Instruction	$ 83,900,780	$ 935	$ 14,591,023	$ 6,616,492	$ (62,692,330)
Instruction-related activities:					
Supervision of instruction	4,203,172	-	1,367,919	-	(2,835,253)
Instructional library, media, and technology	1,027,689	-	212,285	-	(815,404)
School site administration	8,705,985	79	330,377	-	(8,375,529)
Pupil services:					
Home-to-school transportation	4,825,131	-	63,383	-	(4,761,748)
Food services	5,042,951	336,980	4,549,277	-	(156,694)
All other pupil services	7,811,990	-	1,018,372	-	(6,793,618)
Administration:					
Data processing	1,883,616	-	-	-	(1,883,616)
All other administration	5,313,905	17,404	881,447	-	(4,415,054)
Plant services	13,819,308	371	43,984	-	(13,774,953)
Facility acquisition and construction	58,981	-	-	-	(58,981)
Ancillary services	2,448,771	-	52,664	-	(2,396,107)
Interest on long-term obligations	11,311,556	-	-	-	(11,311,556)
Other outgo	839,808	1,209,363	190,936	-	560,491
Depreciation (unallocated)	7,680,314	-	-	-	(7,680,314)
Total School District	$ 158,873,957	$ 1,565,132	$ 23,301,667	$ 6,616,492	(127,390,666)

General Revenues and Subventions:	
Property taxes, levied for general purposes	11,511,227
Property taxes, levied for debt service	11,438,114
Taxes levied for other specific purposes	2,822,462
Federal and State aid not restricted to specific purposes	99,281,885
Interest and investment earnings	445,329
Miscellaneous	3,483,175
Subtotal, General Revenues	128,982,192
Change in Net Position	1,591,526
Net Assets - Beginning, as restated	71,873,911
Net Position - Ending	$ 73,465,437

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

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2018

	General Fund	Special Reserve Fund for Capital Outlay Projects	Capital Project Fund for Blended Component Units
ASSETS			
Deposits and investments	$ 41,559,208	$ 6,981,416	$ 11,721,804
Receivables	6,019,245	26,300	-
Due from other funds	840,454	3,615,649	-
Prepaid expenditures	162,002	-	-
Stores inventories	56,558	-	-
Total Assets	$ 48,637,467	$ 10,623,365	$ 11,721,804
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	$ 12,944,673	$ 1,010,151	$ -
Due to other funds	3,615,649	-	-
Unearned revenue	961,166	-	-
Total Liabilities	17,521,488	1,010,151	-
FUND BALANCES			
Nonspendable	293,560	-	-
Restricted	5,786,573	-	11,721,804
Assigned	1,999,671	9,613,214	-
Unassigned	23,036,175	-	-
Total Fund Balances	31,115,979	9,613,214	11,721,804
Total Liabilities and Fund Balances	$ 48,637,467	$ 10,623,365	$ 11,721,804

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

Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
$ 13,080,373	$ 12,307,971	$ 85,650,772
-	743,456	6,789,001
-	-	4,456,103
-	-	162,002
-	46,399	102,957
$ 13,080,373	$ 13,097,826	$ 97,160,835
$ -	$ 132,468	$ 14,087,292
-	840,454	4,456,103
-	-	961,166
-	972,922	19,504,561
-	46,399	339,959
13,080,373	11,996,086	42,584,836
-	82,419	11,695,304
-	-	23,036,175
13,080,373	12,124,904	77,656,274
$ 13,080,373	$ 13,097,826	$ 97,160,835

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

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

Total Fund Balance - Governmental Funds		**$ 77,656,274**
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:	$ 378,083,896	
Accumulated depreciation is:	(89,802,331)	
Net Capital Assets		288,281,565
Deferred charges on refunding of debt (the difference between the reacquisition price and the net carrying amount of refunded debt) are capitalized and amortized over the remaining life of the new or old debt (whichever is shorter) and are included with governmental activities		11,132,309
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 incurred.		(695,629)
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	9,844,437	
Net change in proportionate share of net pension liability	9,550,008	
Differences between projected and actual earnings on pension plan investments	1,258,056	
Differences between expected and actual experience in the measurement of the total pension liability.	1,571,448	
Changes of assumptions	18,765,962	
Total Deferred Outflows of Resources Related to Pensions		40,989,911
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:		
Differences between projected and actual earnings on pension plan investments	(1,934,109)	
Differences between expected and actual experience in the measurement of the total pension liability.	(1,266,633)	
Changes of assumptions	(428,179)	
Total Deferred Outflows of Resources Related to Pensions		(3,628,921)

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

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

Deferred outflows of resources difference bewteen expected and actual experience, as well as a net difference between projects and actual eranings on plan investments, and are not reported in the District's funds.				
Deferred inflows of resources related to OPEB at year-end consist of a change of actuarial assumptions.			$	(673,214)
Net pension liability is not due and payable in the current period, and is not reported as a liability in the funds.				(108,988,592)
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 - net of unamortized premium	$	133,062,987		
Certificates of participation - net of unamortized premium and discount		24,306,406		
Compensated absences (vacations)		2,748,198		
Equipment lease financing		2,705,768		
Voluntary retirement plan (VRP)		1,819,268		
Net other postemployment benefits (OPEB) liability		35,993,594		
In addition, the District has issued 'capital appreciation' general obligation bonds. The accretion of interest unmatured on the general obligationy bonds to date is:		29,972,045		
Total Long-Term Obligations				(230,608,266)
Total Net Position - Governmental Activities			**$**	**73,465,437**

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

VICTOR VALLEY UNION HIGH 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	Capital Project Fund for Blended Component Units
REVENUES			
Local Control Funding Formula	$ 106,324,695	$ -	$ -
Federal sources	12,874,916	-	-
Other State sources	9,382,805	-	-
Other local sources	4,929,346	79,293	838,374
Total Revenues	133,511,762	79,293	838,374
EXPENDITURES			
Current			
Instruction	78,618,850	-	-
Instruction-related activities:			
Supervision of instruction	3,828,183	-	-
Instructional library, media, and technology	952,433	-	-
School site administration	8,027,625	-	-
Pupil services:			
Home-to-school transportation	6,181,576	-	-
Food services	4,283	-	-
All other pupil services	7,250,842	-	-
Administration:			
Data processing	1,832,692	-	-
All other administration	4,797,680	-	-
Plant services	13,242,279	-	29,383
Ancillary services	2,318,037	-	-
Other outgo	839,808	-	-
Facility acquisition and construction	1,480,516	1,027,711	8,770,876
Debt service			
Principal	576,620	-	-
Interest and other	95,179	-	-
Total Expenditures	130,046,603	1,027,711	8,800,259
Excess (Deficiency) of Revenues Over Expenditures	3,465,159	(948,418)	(7,961,885)
Other Financing Sources (Uses)			
Transfers in	-	3,911,963	-
Transfers out	(3,911,963)	(1,248,606)	(598,064)
Net Financing Sources (Uses)	(3,911,963)	2,663,357	(598,064)
NET CHANGE IN FUND BALANCES	(446,804)	1,714,939	(8,559,949)
Fund Balances - Beginning	31,562,783	7,898,275	20,281,753
Fund Balances - Ending	$ 31,115,979	$ 9,613,214	$ 11,721,804

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

Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
$ -	$ -	$ 106,324,695
-	4,388,653	17,263,569
112,406	7,389,859	16,885,070
11,608,010	1,706,308	19,161,331
11,720,416	13,484,820	159,634,665
-	293,415	78,912,265
-	103,179	3,931,362
-	-	952,433
-	88,442	8,116,067
-	-	6,181,576
-	4,983,170	4,987,453
-	11,551	7,262,393
-	-	1,832,692
-	282,173	5,079,853
-	9,222	13,280,884
-	-	2,318,037
-	-	839,808
-	463,260	11,742,363
6,945,000	1,350,000	8,871,620
3,424,744	601,413	4,121,336
10,369,744	8,185,825	158,430,142
1,350,672	5,298,995	1,204,523
-	2,255,520	6,167,483
-	(408,850)	(6,167,483)
-	1,846,670	-
1,350,672	7,145,665	1,204,523
11,729,701	4,979,239	76,451,751
$ 13,080,373	$ 12,124,904	$ 77,656,274

VICTOR VALLEY UNION HIGH 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		**$ 1,204,523**
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 capitals outlay exceeds depreciation in the period.		
Capital outlay	$ 13,724,184	
Depreciation expense	(7,680,314)	
Net Expense Adjustment		6,043,870
In the Statement of Activities, certain operating expenses, such as compensated absences (vacations) and voluntary retirement plan 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 earned was more than the amounts paid by $274,443 and voluntary retirement benefits paid was $508,047.		233,604
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.		(6,289,188)
In the governmental funds, OPEB costs are based on employer contributions made to OPEB plans during the year. However, in the Statement of Activities, OPEB expense is the net effect of all changes in the deferred outflows, deferred inflows and net OPEB liability during the year.		(1,282,683)
Governmental funds report the effect of premiums, discounts, and the deferred charge on a refunding when debt is first issued, whereas the amounts are deferred and amortized on the Statement of Activities. This amount is the net effect of these related items (net of amortization):		
Amortization of premium on bond debt for the period	676,655	
Amortization of premium on certificates of participation for the period	34,772	
Amortization of discount on certificates of participation for the period	(18,245)	
Amortization of deferred charges on refunding	(4,097,033)	(3,403,851)

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

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018

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	$ 6,945,000	
Certificates of participation	1,350,000	
Equipment lease financing	576,620	$ 8,871,620
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 increased by $158,847, and second, $3,627,522 of accumulated interest was accreted on the District's "capital appreciation" general obligation bonds.		(3,786,369)
Change in Net Position of Governmental Activities		**$ 1,591,526**

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

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

FIDUCIARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2018

	Fiduciary Funds		
	Debt Service Fund for Special Tax Bonds	Associated Student Bodies	Total Agency Funds
ASSETS			
Cash and cash equivalents	$ 1,055,796	$ 776,453	$ 1,832,249
Stores inventories	-	67,593	67,593
Total Assets	$ 1,055,796	$ 844,046	$ 1,899,842
LIABILITIES			
Accounts payable	$ -	$ 34,772	$ 34,772
Due to student groups	-	809,274	809,274
Due to bond holders	1,055,796	-	1,055,796
Total Liabilities	$ 1,055,796	$ 844,046	$ 1,899,842

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Victor Valley Union High School District (the District) was organized in 1915 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 7 - 12 as mandated by the State and/or Federal agencies. The District operates three junior high schools, three comprehensive high schools, a continuation high school, and alternative educational programs.

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

Component Units

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District, in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete. For financial reporting purposes, the component units have a financial and operational relationship which meets the reporting entity definition criteria of the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and thus are included in the financial statements of the District. The component units, although legally separate entities, are reported in the financial statements using the blended presentation method as if they were part of the District's operations because the governing board of the component units is essentially the same as the governing board of the District and because their purpose is to finance the construction of facilities to be used for the direct benefit of the District.

The Victor Valley Union High School District Public Financing Corporation's financial activity is presented in the financial statements as the Capital Projects Fund for Blended Component Units and the Debt Service Fund. Certificates of participation issued by the Corporation are included as long-term liabilities in the government-wide financial statements. Individually-prepared financial statements are not prepared for Victor Valley Union High School District Public Financing Corporation.

The District established Community Facilities Districts (CFD) No. 2003-1 and 2007-1 to authorize the levy of special taxes. The purpose of the agreement is to provide for the issuance of certain debt obligations to provide and finance the design, acquisition, and construction of certain public facilities, pursuant to the Mello-Roos Community Facilities Act of 1982, as amended. The CFD is authorized to levy special taxes on parcels of taxable property within the CFD to pay the principal and interest on the bonds. The CFD financial activity is presented in the Agency Fund. Debt instruments issued by the CFD do not represent liabilities of the District or component unit and are not included in the District-wide financial statements.

Other Related Entities

Charter School The District has approved Charters for Excelsior Charter School (Charter No. 0074) and Options for Youth – Victor Valley Charter School (Charter No. 0013) pursuant to *Education Code* Section 47605. All of the Charter Schools are not operated by the District, and their financial activities are not presented in the District's financial statements. The Charter Schools are operated by separate governing boards and are not considered component units of the District. The Charter Schools receive State and Federal funds for specific purposes that are subject to review and audit by the grantor agencies.

Basis of Presentation - Fund Accounting

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

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

Major Governmental Funds

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

Two 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, and Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects 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 an extension 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 in fund balance, revenues, and expenditures and other financing uses of $5,099,978, $463,502, and $1,083,156, respectively.

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

Capital Project Fund for Blended Component Units The Capital Project Fund for Blended Component Units is used to account for capital projects financed by Mello-Roos Community Facilities Districts and similar entities that are considered blended component units of the District under generally accepted accounting principles (GAAP).

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.

Adult Education Fund The Adult Education Fund is used to account separately for Federal, State, and local revenues that are restricted or committed for adult education programs and is to be expended for adult education purposes only.

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

Capital Project Funds The Capital Project funds are used to account for financial resources 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).

County School Facilities Fund The County School Facilities Fund is established pursuant to *Education Code* Section 17070.43 to receive apportionments from the 1998 State School Facilities Fund (Proposition lA), the 2002 State School Facilities Fund (Proposition 47), the 2004 State School Facilities Fund (Proposition 55), the 2006 State School Facilities Fund (Proposition 1D), or the 2016 State School Facilities Fund (Proposition 51), authorized by the State Allocation Board for new school facility construction, modernization projects, and facility hardship grants, as provided in the Leroy F. Greene School Facilities Act of 1998 (*Education Code* Section 17070 et seq.).

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

Debt Service Fund The Debt Service Fund is used for the accumulation of resources for and the retirement of principal and interest on general long-term obligations.

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

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

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

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

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

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

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

Revenues - Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter, to be used to pay liabilities of the current fiscal year. Generally, available is defined as collectible within 60 days. However to achieve comparability of reporting among California districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to State-aid apportionments, the California Department of Education has defined available for districts as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

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

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

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

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

Investments

Investments held at June 30, 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 investment pool are determined by the program sponsor.

Prepaid Expenditures (Expenses)

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

Stores Inventories

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

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

Depreciation is computed using the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 25 to 50 years; improvements, 15 to 20 years; equipment, 5 to 20 years, and vehicles, 8 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.

Compensated Absences

Accumulated unpaid vacation benefits 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 fund financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the governmental funds.

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

Debt Premiums and Discounts

In the government-wide financial statements, long-term obligations are reported as liabilities in the applicable governmental activities. Debt premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method.

In governmental fund financial statements, bond premiums and discounts 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 deferred charges on refunding of debt, for pension related items, and for OPEB related items.

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

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 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.

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.

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 one-time expenditures. The policy requires a Reserve for Economic Uncertainties consisting of unassigned amounts equal to no less than three percent of General Fund expenditures and other financing uses.

Net Position

Net position represents the difference between assets and liabilities. Net position net of investment in capital assets, t 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 $29,593,146 of restricted net position.

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. 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 Bernardino bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

Change in Accounting Principles

In June 2015, the GASB issued Statement No. 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.

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.

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.

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	$ 85,650,772
Fiduciary funds	1,832,249
Total Deposits and Investments	$ 87,483,021

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

Cash on hand and in banks	$ 1,333,403
Cash in revolving	75,000
Investments	86,074,618
Total Deposits and Investments	$ 87,483,021

Policies and Practices

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

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

General Authorizations

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

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District 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 San Bernardino County Treasury Investment 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:

Investment Type	Amount Reported	Weighted-Average Days to Maturity
First American Government Obligations Fund Class D	$ 825,255	20
Fidelity Institutional Prime Money Market Fund	11,721,803	20
San Bernardino County Treasury Investment Pool	73,527,560	353
Total	$ 86,074,618	

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. Presented below is the minimum rating required by the *California Government Code*, the District's investment policy, or debt agreements, and the actual rating as of the year-end for each investment type.

The investment in the San Bernardino County Treasury Investment Pool has been rated AAA by Fitch ratings. The investment in First American Government Obligations Fund Class D and Fidelity Institutional Prime Money Market Fund have been rated Aaa-mf by Moody's Investor Service as of June 30, 2018.

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government code. Investments in any one issuer that represent five percent or more of the total investments are either an external investment pool or mutual funds and are therefore exempt.

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2018, the District's bank balance of $548,020 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

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 Bernardino County Treasury Investment Pool, First American Government Obligations Fund Class D, and Fidelity Institutional Prime Money Market Fund 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.

Investment Type	Reported Amount	Uncategorized
First American Government Obligations Fund Class D	$ 825,255	$ 825,255
Fidelity Institutional Prime Money Market Fund	11,721,803	11,721,803
San Bernardino County Treasury Investment Pool	73,527,560	73,527,560
Total	$ 86,074,618	$ 86,074,618

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

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	Total Governmental Activities
Federal Government				
Categorical aid	$ 4,468,934	$ -	$ 531,699	$ 5,000,633
State Government				
Categorical aid	461,170	-	136,676	597,846
Special education	233,744	-	-	233,744
Lottery	420,554	-	-	420,554
Local Government				
Interest	144,103	26,300	28,597	199,000
Other Local Sources	290,740	-	46,484	337,224
Total	$ 6,019,245	$ 26,300	$ 743,456	$ 6,789,001

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	$ 10,687,177	$ -	$ -	$ 10,687,177
Construction in Progress	3,642,180	4,931,865	2,427,292	6,146,753
Total Capital Assets Not Being Depreciated	14,329,357	4,931,865	2,427,292	16,833,930
Capital Assets Being Depreciated:				
Land Improvements	21,286,727	1,154,573	-	22,441,300
Buildings and Improvements	311,635,373	7,611,169	-	319,246,542
Furniture and Equipment	17,108,255	2,453,869	-	19,562,124
Total Capital Assets Being Depreciated	350,030,355	11,219,611	-	361,249,966
Total Capital Assets	364,359,712	16,151,476	2,427,292	378,083,896
Less Accumulated Depreciation:				
Land Improvements	9,975,999	746,733	-	10,722,732
Buildings and Improvements	58,011,685	6,395,064	-	64,406,749
Furniture and Equipment	14,134,333	538,517	-	14,672,850
Total Accumulated Depreciation	82,122,017	7,680,314	-	89,802,331
Governmental Activities Capital Assets, Net	$ 282,237,695	$ 8,471,162	$ 2,427,292	$ 288,281,565

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

Governmental Activities	
Unallocated	$ 7,680,314

NOTE 6 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

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

	Due From		
Due To	General Fund	Non-Major Governmental Funds	Total
General Fund	$ -	$ 840,454	$ 840,454
Special Reserve Fund for Capital Outlay Projects	3,615,649		3,615,649
Total	$ 3,615,649	$ 840,454	$ 4,456,103

The balance of $3,615,649 due to the Special Reserve Fund for Capital Outlay Projects from the General Fund is for redevelopment funds associated with facility projects.

A balance of $265,698 due to the General Fund from the Adult Education Non-Major Governmental Fund resulted from reimbursement of indirect costs and health benefits.

A balance of $574,756 due to the General Fund from the Cafeteria Non-Major Governmental Fund resulted from reimbursement of indirect costs, health benefits, and sales tax payable.

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

Operating Transfers

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

	Transfer From				
Transfer To	General Fund	Special Reserve Fund for Capital Outlay Projects	Capital Project Fund for Blended Component Units	Non-Major Governmental Funds	Total
Special Reserve Fund for Capital Outlay Projects	$ 3,911,963	$ -	$ -	$ -	$ 3,911,963
Non-Major Governmental Funds	-	1,248,606	598,064	408,850	2,255,520
Total	$ 3,911,963	$ 1,248,606	$ 598,064	$ 408,850	$ 6,167,483

The General Fund transferred to the Special Reserve Fund for Capital Outlay Projects redevelopment agency funds associated with facility projects.	$ 3,911,963
The Special Reserve Fund for Capital Outlay Projects transferred to the Debt Service Non-Major Governmental Fund for certificates of participation debt service payments.	1,248,606
The Capital Projects Fund for Blended Component Units transferred to the Debt Service Non-Major Governmental Fund for certificates of participation debt service payments.	598,064
The Capital Facilities Non-Major Governmental Fund transferred to the Debt Service Non-Major Governmental Fund for certificates of participation debt service payments.	408,850
Total	$ 6,167,483

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:

	General Fund	Capital Project Fund for Blended Component Units	Non-Major Governmental Funds	Total Governmental Activities	Fiduciary Funds
Salaries and benefits	$ 8,345,230	$ -	$ 25,370	$ 8,370,600	$ -
Local control funding formula	844,096	-	-	844,096	-
Supplies and materials	1,461,956	-	93,246	1,555,202	-
Services	860,293	89	12,046	872,428	-
Construction	589,539	1,010,062	-	1,599,601	-
Due to Charter Schools	292,306	-	-	292,306	-
Due to San Bernardino County Superintendent of Schools	477,002	-	-	477,002	-
Other significant payables	74,251	-	1,806	76,057	34,772
Total	$ 12,944,673	$ 1,010,151	$ 132,468	$ 14,087,292	$ 34,772

NOTE 8 - UNEARNED REVENUE

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

	General Fund
Federal financial assistance	$ 92,655
State categorical aid	868,511
Total	$ 961,166

NOTE 9 - LONG-TERM OBLIGATIONS

Summary

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

	(as restated) Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018	Due in One Year
General obligation bonds	$ 155,307,637	$ 3,627,522	$ 6,945,000	$ 151,990,159	$ 8,095,000
Unamortized premium on bonds	11,721,528	-	676,655	11,044,873	-
Certificates of participation	25,865,000	-	1,350,000	24,515,000	1,390,000
Unamortized premium on certificates	133,295	-	34,772	98,523	-
Unamortized discount on certificates	(325,362)	-	(18,245)	(307,117)	-
Compensated absences (vacations)	2,473,755	274,443	-	2,748,198	-
Equipment lease financing	3,282,388	-	576,620	2,705,768	412,182
Voluntary retirement program	2,327,315	-	508,047	1,819,268	656,180
Net other postemployment benefits (OPEB) liability	35,384,125	3,189,374	2,579,905	35,993,594	-
	$ 236,169,681	$ 7,091,339	$ 12,652,754	$ 230,608,266	$ 10,553,362

Payments made on the General Obligation Bonds are made from the Bond Interest and Redemption Fund with local revenues. Payments for the Certificates of Participation are made from the Debt Service Fund.

The compensated absences will be paid by the fund for which the employee worked. Payments for the equipment lease financing and the voluntary retirement program will be made by the General Fund. Net other postemployment benefits (OPEB) liabilities are generally paid by the General Fund.

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2017	Accreted	Redeemed	Bonds Outstanding June 30, 2018
04/07/09	8/1/2020	4.60-5.10%	$ 30,158,731	$ 16,925,878	$ 960,190	$ 4,560,000	$ 13,326,068
10/7/2009	8/1/2034	1.75-5.77%	69,999,600	44,232,285	2,529,292	2,100,000	44,661,577
2/26/2013	8/1/2035	1.35-5.90%	36,839,953	1,159,474	138,040	-	1,297,514
5/3/2016	8/1/2034	2.00-5.00%	41,530,000	40,850,000	-	285,000	40,565,000
8/10/2016	8/1/2037	2.00-4.00%	52,140,000	52,140,000	-	-	52,140,000
				$ 155,307,637	$ 3,627,522	$ 6,945,000	$ 151,990,159

1999 General Obligation Refunding Bonds, Series A

On April 7, 2009 and April 20, 2009, the District, pursuant to an agreement with the Golden West Schools Financing Authority, issued $30,158,731 1999 General Obligation Refunding Bonds, Series A,. The bonds were issued as follows: current interest bonds of $4,405,000 with stated interest rates ranging from 4.60 to 5.10 percent and maturing August 1, 2007, and capital appreciation bonds fully maturing on August 1, 2020. The bonds were issued to previously issued 1994 General Obligation Bonds. At June 30, 2018, the principal balance outstanding was $13,326,068. Unamortized premium received on issuance of the bonds amounted to $1,805 as of June 30, 2018.

General Obligation Bonds, Series 2009

On October 7, 2009, the District issued $69,999,600 of General Obligation Bonds, Series 2009 consisting of $37,545,000 in current interest bonds, $13,206,759 term bonds, and $19,247,841 in capital appreciation bonds. The Series A have a final maturity to occur on August 1, 2034. Interest rates on the bonds range from of 1.75 to 5.77 percent. Proceeds from the sale of the bonds were to be used to upgrade classrooms, replace portables, and construct new vocational/career tech classrooms and build a new high school in Adelanto. At June 30, 2018, the principal balance outstanding of the 2008 General Obligation Bonds, Series A was $44,661,577. Unamortized premium received on issuance of the bonds amounted to $1,605,481 as of June 30, 2018.

General Obligation Bonds, Series B

On February 26, 2013, the District issued $36,839,953 General Obligation Bonds, Series B consisting of capital appreciation bonds. The bonds have a final maturity to occur on August 1, 2035. Interest rates on the bonds range from of 1.35 to 5.90 percent. Proceeds from the sale of the bonds were to be used to effect the prepayment of the Bond Anticipation Notes (issued in 2010 and obligation satisfied in 2013), whose proceeds were applied for the purposes of financing acquisition, construction, and modernization of certain District property and school facilities.

On August 10, 2016, the District issued General Obligation Refunding Bonds, 2016 Series B, to refund $44,297,353 of the District's General Obligation Bonds, 2008 Election, Series B. At June 30, 2018, the principal balance outstanding of the 2008 General Obligation Bonds, Series B was $1,297,514. Unamortized premium received on issuance of the bonds amounted to $1,760,785 as of June 30, 2018.

General Obligation Refunding Bonds, 2016 Series A

On May 3, 2016, the District issued $41,530,000 General Obligation Refunding Bonds, 2016 Series A. The bonds have a final maturity to occur on August 1, 2034. Interest rates on the bonds range from 2.00 to 5.00 percent. The bonds were issued to refund certain maturities of the District's General Obligation Bonds, Series 2009 and to pay for the costs of issuance of the bonds. At June 30, 2018, the principal balance outstanding of the General Obligation Refunding Bonds, 2016 Series A was $40,565,000. Unamortized premium received on issuance of the bonds amounted to $1,688,509 as of June 30, 2018.

General Obligation Refunding Bonds, 2016 Series B

On August 10, 2016, the District issued $52,140,000 General Obligation Refunding Bonds, 2016 Series B. The bonds have a final maturity to occur on August 1, 2037. Interest rates on the bonds range from 2.00 to 4.00 percent. The bonds were issued to advance refund certain maturities of the District's General Obligation Bonds, Series B, with the prepayment to occur August 1, 2023, and to pay for the costs of issuance of the bonds. At June 30, 2018, the principal balance outstanding of the General Obligation Refunding Bonds, 2016 Series B was $52,140,000. Unamortized premium received on issuance of the bonds amounted to $5,988,293 as of June 30, 2018.

Debt Service Requirements to Maturity

The bonds mature through 2038, as follows:

Fiscal Year	Principal Including Accreted Interest to Date	Accreted Interest	Current Interest	Total
2019	$ 7,838,393	$ 256,607	$ 3,408,994	$ 11,503,994
2020	29,532,499	2,652,501	3,390,194	35,575,194
2021	5,180,005	729,995	3,378,094	9,288,094
2022	2,877,118	122,882	3,336,619	6,336,619
2023	3,383,328	556,672	3,274,594	7,214,594
2024-2028	24,056,243	7,068,757	14,978,669	46,103,669
2029-2033	19,679,021	4,700,979	12,963,956	37,343,956
2034-2038	59,443,552	6,766,448	5,845,422	72,055,422
Total	$ 151,990,159	$ 22,854,841	$ 50,576,542	$ 225,421,542

Certificates of Participation

On April 28, 2016, the District issued the $3,005,000 Certificates of Participation pursuant to a lease agreement with the Victor Valley Union High School District Financing Corporation. The proceeds of the certificates were used to prepay certain outstanding lease obligation of the District. Interest rates on the refunding certificates range from 2.00 to 4.00 percent. The refunding certificates have a final maturity to occur on November 2021. At June 30, 2018, the principal balance outstanding was $1,600,000. Unamortized discount on issuance of the certificates amounted to $307,117 as of June 30, 2018.

On April 28, 2016, the District issued the $23,890,000 Certificates of Participation pursuant to a lease agreement with the Victor Valley Union High School District Financing Corporation. The proceeds of the certificates will be used to finance the costs of certain facilities of the District. Interest rates on the certificates range from 2.00 to 3.00 percent. The certificates have a final maturity to occur on November 2035. At June 30, 2018, the principal balance outstanding was $22,915,000. Unamortized premium received on issuance of the certificates amounted to $98,523 as of June 30, 2018.

The certificates mature through 2036, as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2019	$ 1,390,000	$ 577,162	$ 1,967,162
2020	1,425,000	553,437	1,978,437
2021	1,465,000	525,738	1,990,738
2022	1,515,000	495,019	2,010,019
2023	1,120,000	467,825	1,587,825
2024-2028	6,205,000	1,976,191	8,181,191
2029-2033	7,410,000	1,149,909	8,559,909
2034-2036	3,985,000	290,625	4,275,625
Total	$ 24,515,000	$ 6,035,906	$ 30,550,906

Compensated Absences (Vacations)

The long-term portion of compensated absences (vacations) for the District at June 30, 2018, amounted to $2,748,198.

Equipment Lease Financing

On May 12, 2015, the District entered into an equipment lease agreement for the acquisition of certain equipment for the Energy Conservation Measures. The terms of the agreement are semi-annual payments with a stated interest rate of 3.03 percent for a period of 12 years. The District's liability on the equipment lease financing with options to purchase is summarized below:

Fiscal Year	Principal	Interest to Maturity	Total
2019	$ 412,182	$ 77,459	$ 489,641
2020	240,354	67,751	308,105
2021	256,881	60,288	317,169
2022	268,268	52,433	320,701
2023	283,522	44,202	327,724
2024-2027	1,244,561	83,220	1,327,781
Total	$ 2,705,768	$ 385,353	$ 3,091,121

Voluntary Retirement Program (VRP)

The District offered a voluntary retirement program to qualified certificated and classified employees. Eligibility requirements were that employees must be at least age 55 with 10 or more years of continuous service in the District as of June 30, 2015 and extended through June 30, 2016. VRP benefits are based on 90 percent of the STRS/PERS creditable compensation for the applicable fiscal year. The District will fund the benefits over a five year period. Currently, there are 35 employees participating in this plan and the District's obligation to those retirees as of June 30, 2018, is $1,819,268.

Year Ending June 30,	Payment
2019	$ 656,180
2020	740,663
2021	422,425
Total	$ 1,819,268

Net Other Postemployment Benefit (OPEB) Liability

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

OPEB Plan	Net OPEB Liability	Deferred Outflows of Resources	Deferred Inflows of Resources	OPEB Expense
District Plan	$ 35,395,488	$ 8,130	$ 681,344	$ 1,309,680
Medicare Premium Payment (MPP) Program	598,106	-	-	(26,997)
Total	$ 35,993,594	$ 8,130	$ 681,344	$ 1,282,683

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.

Management of the Plan is vested in the District management. Management of the trustee assets is vested with the Benefit Trust Company.

Plan Membership

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

Inactive employees or beneficiaries currently receiving benefits payments	74
Active employees	851
	925

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, the Victor Valley Teachers Association (VVTA), 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 $1,750,555 to the Plan which was used for premiums.

Investment

Investment Policy

The Plan's policy in regard to the allocation of invested assets is established and may be amended by the governing board by a majority vote of its members. It is the policy of the District to pursue an investment strategy that reduces risks through the prudent diversification for the portfolio across a broad selection of distinct asset classes. The Plan's investment policy discourages the use of cash equivalents, expect for liquidity purposes, and aims to refrain from dramatically shifting asset class allocation over short time spans. The following was the governing board's adopted asset allocation policy as of June 30, 2018:

Asset Class	Target Allocation
Mutual Fund - Domestic equity	33%
Mutual Fund - Fixed income	55%
Mutual Fund - International equity	8%
Mutual Fund - Real estate	4%

Concentration

The investment policy of the Plan contains no limitations on the amount that can be invested in any one issuer. As of June 30, 2018, investments in mutual funds represents 100 percent of the total investment.

Rate of Return

For the year ended June 30, 2018, the annual money-weighed rate of return on investments, net of investment expense, was 3.4 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Receivable

There are no receivables for long-term contracts with the District for contributions required to be disclosed under paragraph 34c of GASB Statement No. 74.

Allocated Insurance Contracts

There are no allocated insurance contracts excluded from OPEB plan assets required to be disclosed under paragraph 34d of GASB Statement No. 74.

Reserves

There are no reserves required to be reported under paragraph 34e of GASB Statement No. 74.

Net OPEB Liability of the District

The District's net OPEB liability of $35,395,488 was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The components of the net OPEB liability of the District at June 30, 2018, were as follows:

Total OPEB liability	$ 35,572,071
Plan fiduciary net position	(176,583)
District's net OPEB liability	$ 35,395,488
Plan fiduciary net position as a percentage of the total OPEB liability	0.50%

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	2.50	percent
Salary increases	3.00	percent, average, including inflation
Investment rate of return	6.00	percent, net of OPEB plan investment expense, including inflation
Health care cost trend rates	8.00	percent for 2018

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

Mortality rates were based on the RP-2014 Employee and Healthy Annuitant Mortality Tables for Males or Females, as appropriate, projected using a generational projection based on 100 of scale MP-2016 for years 2014 through 2029, 50 percent of MP-2016 for years 2030 through 2049, and 20 percent of MP-2016 for 2050 and thereafter.

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.

The long-term expected rate of return on OPEB plan investments of 6.00 percent for the Futuris Trust was provided by Morgan Stanley and the Benefits Trust Company, using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2018, (see the discussion of the Plan's investment policy) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Mutual Fund - Domestic equity	9.3%
Mutual Fund - Fixed income	4.8%
Mutual Fund - International equity	8.8%
Mutual Fund - Real estate	6.4%

Discount Rate

The discount rate used to measure the total OPEB liability was 3.90 percent as of the valuation date for the unfunded portion and the long-term rate of return 6.00 percent for the funded portion, based on the results of a cross-over test performed as of the valuation date. The cross-over test assumed the District would make no further contributions to the trust.

Changes in the Net OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balance at June 30, 2017	$ 34,929,787	$ 170,765	$ 34,759,022
Service cost	1,889,914	-	1,889,914
Interest	1,294,096	-	1,294,096
Differences between expected and actual experience	5,364	-	5,364
Contributions-employer	-	1,750,555	(1,750,555)
Net investment income	-	5,818	(5,818)
Changes of assumptions or other inputs	(796,535)	-	(796,535)
Benefit payments	(1,750,555)	(1,750,555)	-
Net change in total OPEB liability	642,284	5,818	636,466
Balance at June 30, 2018	$ 35,572,071	$ 176,583	$ 35,395,488

Changes of assumptions reflect a change in the discount rate from 3.60 percent in 2017 to 3.90 percent in 2018.

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

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

Discount Rate	Net OPEB Liability
1% decrease (2.90%)	$ 38,138,523
Current discount rate (3.90%)	35,395,488
1% increase (4.90%)	32,896,594

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

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

Healthcare Cost Trend Rates	Net OPEB Liability
1% decrease (7.0%)	$ 33,642,365
Current healthcare cost trend rate (8.0%)	35,395,488
1% increase (9.0%)	37,065,631

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

For the year ended June 30, 2018, the District recognized OPEB expense of $1,309,680. At June 30, 2018, the District reported deferred outflows of resources and deferred inflow of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 4,588	$ -
Changes of assumptions	-	681,344
Net difference between projected and actual earnings on OPEB plan investments	3,542	-
Total	$ 8,130	$ 681,344

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	$ (113,529)
2020	(113,529)
2021	(113,529)
2022	(113,531)
2022	(114,415)
Thereafter	(104,681)
	$ (673,214)

<u>Medicare Premium Payment (MPP) Program</u>

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.

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 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.

The MPP Program is funded on a pay-as-you go basis from a portion of monthly District benefit payments. In accordance with California *Education Code* Section 25930, benefit payments 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.

Net OPEB Liability and OPEB Expense

At June 30, 2018, the District reported a liability of $598,106 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 0.1422 percent, and 0.1336 percent, resulting in a net increase in the proportionate share of 0.0086 percent.

For the year ended June 30, 2018, the District recognized OPEB expense of $(26,997).

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.

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	Net OPEB Liability
1% decrease (2.58%)	$ 662,145
Current discount rate (3.58%)	598,106
1% increase (4.58%)	535,815

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 a Medicare costs trend rates that are one percent lower or higher than the current rates:

Medicare Costs Trend Rate	Net OPEB Liability
1% decrease (2.7% Part A and 3.1% Part B)	$ 540,480
Current Medicare costs trend rate (3.7% Part A and 4.1% Part B)	598,106
1% increase (4.7% Part A and 5.1% Part B)	655,156

NOTE 10 - NON-OBLIGATORY DEBT

Non-obligatory debt relates to debt issuances by the Community Facility Districts, and the name of component unit, as authorized by the Mello-Roos Community Facilities Act of 1982 as amended, and the Mark-Roos Local Bond Pooling Act of 1985, and are payable from special taxes levied on property within the Community Facilities Districts according to a methodology approved by the voters within the District. Neither the faith and credit nor taxing power of the District is pledged to the payment of the bonds. Reserves have been established from the bond proceeds to meet delinquencies should they occur. If delinquencies occur beyond the amounts held in those reserves, the District has no duty to pay the delinquency out of any available funds of the District. The District acts solely as an agent for those paying taxes levied and the bondholders, and may initiate foreclosure proceedings. Special assessment debt of $5,600,000 as of June 30, 2018, does not represent debt of the District and, as such, does not appear in the accompanying basic financial statements.

NOTE 11 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Special Reserve Fund for Capital Outlay Projects	Capital Project Fund for Blended Component Units	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total
Nonspendable						
Revolving cash	$ 75,000	$ -	$ -	$ -	$ -	$ 75,000
Stores inventories	56,558	-	-	-	46,399	102,957
Prepaid expenditures	162,002	-	-	-	-	162,002
Total Nonspendable	293,560	-	-	-	46,399	339,959
Restricted						
Legally restricted programs	5,786,573	-	-	-	2,198,052	7,984,625
Capital projects	-	-	11,721,804	-	9,416,320	21,138,124
Debt services	-	-	-	13,080,373	381,714	13,462,087
Total Restricted	5,786,573	-	11,721,804	13,080,373	11,996,086	42,584,836
Assigned						
Adult education program	-	-	-	-	82,419	82,419
Deferred maintenance program	1,999,671	-	-	-	-	1,999,671
Capital projects	-	9,613,214	-	-	-	9,613,214
Total Assigned	1,999,671	9,613,214	-	-	82,419	11,695,304
Unassigned						
Economic uncertainties	3,986,263	-	-	-	-	3,986,263
Remaining unassigned	19,049,912	-	-	-	-	19,049,912
Total Unassigned	23,036,175	-	-	-	-	23,036,175
Total	$ 31,115,979	$ 9,613,214	$ 11,721,804	$ 13,080,373	$ 12,124,904	$ 77,656,274

NOTE 12 - RISK MANAGEMENT

Property and Liability

The District is exposed to various risks of loss related to torts, theft, damage, and destruction of assets; errors and omissions, injuries to employees, life, and health of employees and natural disasters. During fiscal year ending June 30, 2018, the District contracted with California Schools Risk Management (CSRM) Joint Powers Authority for property and liability insurance coverage. Settlement claims have not exceeded the limits of this 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 California 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 the PIPS is limited to districts that can meet the JPA's selection criteria.

Employee Medical Benefits

The District has contracted with the Anthem Blue Cross, Blue Shield, and Kaiser Permanente to provide employee health benefits, and Delta Dental for dental benefits. Additional vision benefits are provided by Medical EyeServices and basic life insurance benefits are provided through Johnson Rooney Welch, Inc.

NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS

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

For the fiscal year ended June 30, 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:

Pension Plan	Collective Net Pension Liability	Collective Deferred Outflows of Resources	Collective Deferred Inflows of Resources	Collective Pension Expense
CalSTRS	$ 72,621,378	$ 28,083,773	$ 3,200,742	$ 9,070,526
CalPERS	36,367,214	12,906,138	428,179	7,063,099
Total	$ 108,988,592	$ 40,989,911	$ 3,628,921	$ 16,133,625

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

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

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

Benefits Provided

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

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:

	School Employer Pool (CalSTRS)	
	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 $6,530,924.

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	$ 72,621,378
State's proportionate share of the net pension liability associated with the District	42,962,194
Total	$ 115,583,572

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 0.0785 percent and 0.0751 percent, resulting in a net increase in the proportionate share of 0.0034 percent.

For the year ended June 30, 2018, the District recognized pension expense of $9,070,526. In addition, the District recognized pension expense and revenue of $4,324,557 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	$ 6,530,924	$ -
Net change in proportionate share of net pension liability	7,830,330	-
Difference between projected and actual earnings on pension plan investments	-	1,934,109
Difference between expected and actual experiences in the measurement of the total pension liability	268,561	1,266,633
Change of assumptions	13,453,958	
Total	$ 28,083,773	$ 3,200,742

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	$ (1,607,897)
2020	1,216,703
2021	175,442
2022	(1,718,357)
Total	$ (1,934,109)

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	$ 3,773,871
2020	3,773,871
2021	3,773,871
2022	3,773,871
2023	2,529,595
Thereafter	2,661,137
Total	$ 20,286,216

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%

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:

Discount Rate	Net Pension Liability
1% decrease (6.10%)	$ 106,631,239
Current discount rate (7.10%)	72,621,378
1% increase (8.10%)	45,020,072

California Public Employees Retirement System (CalPERS)

Plan Description

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

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

Benefits Provided

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

The CalPERS provisions and benefits in effect at June 30, 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 are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2018, are presented above and the total District contributions were $3,313,513.

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 $36,367,214. 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 0.1523 percent and 0.1470 percent, resulting in a net increase in the proportionate share of 0.0053 percent.

For the year ended June 30, 2018, the District recognized pension expense of $7,063,099. 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	Deffered Inflows of Resources
Pension contributions subsequent to measurement date	$ 3,313,513	$ -
Net change in proportionate share of net pension liability	1,719,678	-
Difference between projected and actual earnings on pension plan investments	1,258,056	-
Difference between expected and actual experiences in the measurement of the total pension liability	1,302,887	-
Changes of assumptions	5,312,004	428,179
Total	$ 12,906,138	$ 428,179

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	$ (34,090)
2020	1,451,524
2021	529,533
2022	(688,911)
Total	$ 1,258,056

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	$ 3,236,620
2020	2,630,361
2021	2,039,409
Total	$ 7,906,390

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.

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:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
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:

Discount Rate	Net Pension Liability
1% decrease (6.15%)	$ 53,507,825
Current discount rate (7.15%)	36,367,214
1% increase (8.15%)	22,147,641

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 $3,493,739 (9.328 percent of annual payroll). Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures; however, guidance received from the California Department of Education advises local educational agencies not to record these amounts in the Annual Financial and Budget Report. These amounts have not been included in the budget amounts reported in the *General Fund - Budgetary Comparison Schedule*. These amounts have been recorded in these financial statements.

NOTE 14 - 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 PROJECTS	Remaining Construction Commitment	Expected Date of Completion
Victor Valley High School - Administration Building	$ 6,567,777	January 31, 2019

NOTE 15 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS

The District is a member of California Schools Risk Management joint powers authority (JPA). The District pays an annual premium to the entity for its workers' compensation and property liability coverage. The relationship between the District and the JPA is such that it is not a component unit of the District for financial reporting purposes.

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

During the year ended June 30, 2018, the District made payments of $2,682,317 and $734,831 for its workers' compensation and property and liability coverage, respectively.

NOTE 16 - 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:

Government-Wide Financial Statements	
Net Position - Beginning	$ 94,093,742
Inclusion of net OPEB liability from the adoption of GASB Statement No. 75	(22,219,831)
Net Position - Beginning as Restated	$ 71,873,911

REQUIRED SUPPLEMENTARY INFORMATION

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

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

	Budgeted Amounts		Actual	Variances - Positive (Negative) Final
	Original	Final	(GAAP Basis)	to Actual
REVENUES				
Local Control Funding Formula	$ 103,150,951	$ 104,988,083	$ 106,324,695	$ 1,336,612
Federal sources	10,476,989	14,830,695	12,874,916	(1,955,779)
Other State sources	2,977,996	9,387,977	9,382,805	(5,172)
Other local sources	5,184,181	4,256,089	4,929,346	673,257
Total Revenues [1]	121,790,117	133,462,844	133,511,762	48,918
EXPENDITURES				
Current				
Certificated salaries	45,472,759	49,562,923	49,059,592	503,331
Classified salaries	19,207,984	20,569,034	20,164,315	404,719
Employee benefits	30,229,472	34,616,228	36,925,566	(2,309,338)
Books and supplies	8,987,603	9,973,971	6,695,926	3,278,045
Services and operating expenditures	15,330,326	16,496,894	12,525,766	3,971,128
Capital outlay	731,889	2,827,118	3,442,830	(615,712)
Other outgo	366,416	539,343	560,808	(21,465)
Debt service				
Principal	576,621	576,621	576,621	-
Interest	95,179	95,179	95,179	-
Total Expenditures [1]	120,998,249	135,257,311	130,046,603	5,210,708
Excess (Deficiency) of Revenues Over Expenditures	791,868	(1,794,467)	3,465,159	5,259,626
OTHER FINANCING SOURCES (USES)				
Transfers in	2,610,036	2,610,036	-	(2,610,036)
Transfers out	(2,194,215)	(3,911,963)	(3,911,963)	-
Net Financing Sources (Uses)	415,821	(1,301,927)	(3,911,963)	(2,610,036)
NET CHANGE IN FUND BALANCE	1,207,689	(3,096,394)	(446,804)	2,649,590
Fund Balance - Beginning	31,562,783	31,562,783	31,562,783	-
Fund Balance - Ending	$ 32,770,472	$ 28,466,389	$ 31,115,979	$ 2,649,590

[1] On behalf payments of $3,493,739 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, and Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects, for reporting purposes into the General Fund, additional revenues and expenditures pertaining to these 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.

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

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

	2018
Total OPEB Liability	
Service cost	$ 1,889,914
Interest	1,294,096
Difference between expected and actual experience	5,364
Changes of assumptions	(796,535)
Benefit payments	(1,750,555)
Net change in total OPEB liability	642,284
Total OPEB liability - beginning	34,929,787
Total OPEB liability - ending (a)	$ 35,572,071
Plan Fiduciary Net Position	
Contributions - employer	$ 1,750,555
Net investment income	5,818
Benefit payments	(1,750,555)
Net change in plan fiduciary net position	5,818
Plan fiduciary net position - beginning	170,765
Plan fiduciary net position - ending (b)	$ 176,583
District's net OPEB liability - ending (a) - (b)	$ 35,395,488
Plan fiduciary net position as a percentage of the total OPEB liability	0.50%
Covered-employee payroll	$ 69,427,149
District's netl OPEB liability as a percentage of covered-employee payroll	50.98%

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

See accompanying note to required supplementary information.

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

SCHEDULE OF OPEB INVESTMENT RETURNS
FOR THE YEAR ENDED JUNE 30, 2018

	2018
Annual money-weighted rate of return, net of investment expense	3.40%

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

See accompanying note to required supplementary information.

VICTOR VALLEY UNION HIGH 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,	2018
District's proportion of the net OPEB liability	0.1422%
District's proportionate share of the net OPEB liability	$ 598,106
District's covered-employee payroll	N/A[1]
District's proportionate share of the net OPEB liability as a percentage of it's covered-employee payroll	N/A[1]
Plan fiduciary net position as a percentage of the total OPEB liability	0.01%

[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.

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

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

	2018	2017
CalSTRS		
District's proportion of the net pension liability	0.0785%	0.0751%
District's proportionate share of the net pension liability	$ 72,621,378	$ 60,742,122
State's proportionate share of the net pension liability associated with the District	42,962,194	34,579,406
Total	$ 115,583,572	$ 95,321,528
District's covered - employee payroll	$ 41,451,479	$ 37,593,588
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	175%	162%
Plan fiduciary net position as a percentage of the total pension liability	69%	70%
CalPERS		
District's proportion of the net pension liability	0.1523%	0.1470%
District's proportionate share of the net pension liability	$ 36,367,214	$ 29,033,283
District's covered - employee payroll	$ 19,457,424	$ 17,561,383
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	187%	165%
Plan fiduciary net position as a percentage of the total pension liability	72%	74%

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

See accompanying note to required supplementary information.

	2016	2015
	0.0751%	0.0617%
	$ 50,535,245	$ 36,048,496
	26,727,574	21,767,639
	$ 77,262,819	$ 57,816,135
	$ 34,706,588	$ 34,710,030
	146%	104%
	74%	77%
	0.1407%	0.1237%
	$ 20,735,093	$ 14,048,470
	$ 15,590,757	$ 15,590,781
	133%	90%
	79%	83%

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

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

	2018	2017
CalSTRS		
Contractually required contribution	$ 6,530,924	$ 5,214,596
Contributions in relation to the contractually required contribution	(6,530,924)	(5,214,596)
Contribution deficiency (excess)	$ -	$ -
District's covered - employee payroll	$ 45,259,349	$ 41,451,479
Contributions as a percentage of covered - employee payroll	14.43%	12.58%
CalPERS		
Contractually required contribution	$ 3,313,513	$ 2,702,247
Contributions in relation to the contractually required contribution	(3,313,513)	(2,702,247)
Contribution deficiency (excess)	$ -	$ -
District's covered - employee payroll	$ 21,334,834	$ 19,457,424
Contributions as a percentage of covered - employee payroll	15.531%	13.888%

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

See accompanying note to required supplementary information.

2016	2015
$ 4,033,792	$ 3,081,945
(4,033,792)	(3,081,945)
$ -	$ -
$ 37,593,588	$ 34,706,588
10.73%	8.88%
$ 2,080,497	$ 1,835,188
(2,080,497)	(1,835,188)
$ -	$ -
$ 17,561,383	$ 15,590,757
11.847%	11.771%

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.

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

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

> ***Change in Benefit Terms –*** There were no changes in the benefit terms since the previous valuation.
>
> ***Change of Assumptions –*** The discount rate was changed from 3.60 percent as of July 1, 2017 to 3.90 percent as of June 30, 2018.

Schedule of OPEB Investment Returns

This schedule presents information on the annual money-weighted rate of return on OPEB plan investments. In future years, as data becomes available, ten years of information will be presented.

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.

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

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

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

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education (CDE):			
Title I, Part A - Basic Grants Low Income and Neglected	84.010	14329	$ 9,248,473
Title II, Part A - Supporting Effective Instruction Local Grants	84.367	14341	530,441
Title III - English Learner Student Program	84.365	14346	89,492
Carl D. Perkins Career and Technical Education: Secondary, Section 131	84.048	14894	339,469
Passed through Desert/Mountain Special Education Local Plan Area:			
Local Assistance Entitlement	84.027A	13379	2,234,219
Total U.S. Department of Education			12,442,094
U.S. DEPARTMENT OF AGRICULTURE			
Passed through CDE:			
Child Nutrition Cluster:			
Especially Needy Breakfast	10.553	13526	851,339
National School Lunch Program	10.555	13524	2,952,625
Summer Food Service Program	10.559	13004	76,170
Food Distribution	10.555	13524	283,406
Total Child Nutrition Cluster			4,163,540
Child and Adult Care Food Program	10.558	13393	225,113
Total U.S. Department of Agriculture			4,388,653
U.S. DEPARTMENT OF DEFENSE			
Junior Reserve Officer Training Corps - Air Force	12.000	[1]	50,973
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through California Department of Health Services:			
Medicaid Cluster:			
Medi-Cal Billing Option	93.778	10013	180,663
Passed through San Bernardino County Superintendent of Schools:			
Medi-Cal Administrative Activities Program	93.778	10060	350,962
Total Medicaid Cluster			531,625
Total U.S. Department of Health and Human Services			531,625
Total Federal Programs			$ 17,413,345

[1] Pass-Through Entity Identifying Number not available

See accompanying note to supplementary information.

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2018

ORGANIZATION

The Victor Valley Union High School District was established in 1915 and consists of an area comprising approximately 536 square miles. The District operates three junior high schools, three comprehensive high schools, a continuation high school, and alternative education programs. There were no boundary changes during the year.

GOVERNING BOARD

MEMBER	OFFICE	TERM EXPIRES
Barbara Dew	President	2020
Jose Berrios	Vice President	2020
Timothy Hauk	Clerk	2018
Penny Edmiston	Member	2018
Timothy Norton	Member	2018

ADMINISTRATION

Dr. Ron Williams	Superintendent
Vacant	Assistant Superintendent, Business Services
Laurren Francoisse	Assistant Superintendent, Educational Services
Dr. Ramiro Rubalcaba	Assistant Superintendent, Human Resources

See accompanying note to supplementary information.

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

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

	Final Report	
	Amended Second Period Report	Amended Annual Report
Regular ADA		
Seventh and eighth	2,500.14	2,497.66
Ninth through twelfth	7,063.09	7,001.10
Total Regular ADA	9,563.23	9,498.76
Extended Year Special Education		
Seventh and eighth	1.43	1.43
Ninth through twelfth	30.74	30.74
Total Extended Year Special Education	32.17	32.17
Special Education, Nonpublic, Nonsectarian Schools		
Seventh and eighth	2.49	2.52
Ninth through twelfth	12.35	10.74
Total Special Education, Nonpublic, Nonsectarian Schools	14.84	13.26
Extended Special Education, Nonpublic, Nonsectarian Schools		
Seventh and eighth	0.33	0.28
Ninth through twelfth	0.78	1.64
Total Special Education, Nonpublic, Nonsectarian Schools	1.11	1.92
Total ADA	9,611.35	9,546.11

See accompanying note to supplementary information.

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

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

Grade Level	1986-87 Minutes Requirement	2017-18 Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
Grades 7 - 8	54,000				
Grade 7		65,004	180	-	Complied
Grade 8		65,004	180	-	Complied
Grades 9 - 12	64,800				
Grade 9		65,004	180	-	Complied
Grade 10		65,004	180	-	Complied
Grade 11		65,004	180	-	Complied
Grade 12		65,004	180	-	Complied

See accompanying note to supplementary information.

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

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

Summarized below are the fund balance reconciliations between the Unaudited Actual Financial Report and the audited financial statements.

	Capital Project Fund for Blended Component Units
FUND BALANCE	
Balance, June 30, 2018, Unaudited Financial Statement	$ 20,281,752
Decrease in:	
Cash with fiscal agent	(8,528,330)
Investments	(31,618)
Balance, June 30, 2018, Audited Financial Statement	$ 11,721,804

See accompanying note to supplementary information.

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

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

	(Budget) 2019 [1]	2018	2017	2016
GENERAL FUND [3]				
Revenues	$ 134,690,302	$ 133,048,255	$ 126,027,202	$ 118,072,514
Expenditures	140,674,599	128,963,447	118,087,240	106,940,545
Other uses and transfers out	-	3,911,963	5,548,880	7,828,003
Total Expenditures and Other Sources	140,674,599	132,875,410	123,636,120	114,768,548
INCREASE IN FUND BALANCE	$ (5,984,297)	$ 172,845	$ 2,391,082	$ 3,303,966
ENDING FUND BALANCE	$ 20,031,704	$ 26,016,001	$ 25,843,156	$ 23,452,074
AVAILABLE RESERVES [2]	$ 15,870,769	$ 23,036,175	$ 15,158,036	$ 12,997,972
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO	11.28%	17.34%	12.26%	11.33%
LONG-TERM OBLIGATIONS [4]	N/A	$230,608,266	$ 236,169,681	$ 201,060,644
K-12 AVERAGE DAILY ATTENDANCE AT P-2	9,615	9,611	9,459	9,076

The General Fund balance has increased by $2,563,927 over the past two years. The fiscal year 2018-2019 budget projects a decrease of $5,984,297 (23.0 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 surpluses in all of the past three years but anticipates incurring an operating deficit during the 2018-2019 fiscal year. Total long-term obligations have increased by $29,547,622 over the past two years.

Average daily attendance has increased by 535 over the past two years. A decline of 4 ADA is anticipated during fiscal year 2018-2019.

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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, and the Special Reserve Fund for Other Than Capital Outlay Projects as required by GASB Statement No. 54.

4 Long-term obligations have been restated as of June 30, 2018 due to the implementation of GASB Statement No. 75.

See accompanying note to supplementary information.

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

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

Name of Charter School	Included in Audit Report
Excelsior Charter (0074)	No
Options for Youth - Victor Valley (0013)	No

See accompanying note to supplementary information.

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

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

	Adult Education Fund	Cafeteria Fund	Building Fund
ASSETS			
Deposits and investments	$ 425,678	$ 2,066,711	$ 578,941
Receivables	102,701	574,630	2,316
Stores inventories	-	46,399	-
Total Assets	$ 528,379	$ 2,687,740	$ 581,257
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	$ 34,039	$ 14,756	$ 7,000
Due to other funds	265,698	574,756	-
Total Liabilities	299,737	589,512	7,000
Fund Balances:			
Nonspendable	-	46,399	-
Restricted	146,223	2,051,829	574,257
Assigned	82,419	-	-
Total Fund Balances	228,642	2,098,228	574,257
Total Liabilities and Fund Balances	$ 528,379	$ 2,687,740	$ 581,257

See accompanying note to supplementary information.

Capital Facilities Fund	County School Facilities Fund	Debt Service Fund	Total Non-Major Governmental Funds
$ 2,376,632	$ 6,478,592	$ 381,417	$ 12,307,971
53,800	9,712	297	743,456
-	-	-	46,399
$ 2,430,432	$ 6,488,304	$ 381,714	$ 13,097,826
$ -	$ 76,673	$ -	$ 132,468
-	-	-	840,454
-	76,673	-	972,922
-	-	-	46,399
2,430,432	6,411,631	381,714	11,996,086
-	-	-	82,419
2,430,432	6,411,631	381,714	12,124,904
$ 2,430,432	$ 6,488,304	$ 381,714	$ 13,097,826

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

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

	Adult Education Fund	Cafeteria Fund	Building Fund
REVENUES			
Federal sources	$ -	$ 4,388,653	$ -
Other State sources	418,459	367,653	-
Other local sources	5,002	379,104	7,502
Total Revenues	423,461	5,135,410	7,502
EXPENDITURES			
Current			
Instruction	293,415	-	-
Instruction-related activities:			
Supervision of instruction	103,179	-	-
School site administration	88,442	-	-
Pupil services:			
Food services	-	4,983,170	-
All other pupil services	11,551	-	-
Administration:			
All other general administration	29,000	250,000	-
Plant services	-	4,229	-
Facility acquisition and construction	-	-	36,996
Debt service			
Principal	-	-	-
Interest and other	-	-	-
Total Expenditures	525,587	5,237,399	36,996
Excess (Deficiency) of Revenues Over Expenditures	(102,126)	(101,989)	(29,494)
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	-
Transfers out	-	-	-
Net Financing Sources (Uses)	-	-	-
NET CHANGE IN FUND BALANCES	(102,126)	(101,989)	(29,494)
Fund Balances - Beginning	330,768	2,200,217	603,751
Fund Balances - Ending	$ 228,642	$ 2,098,228	$ 574,257

See accompanying note to supplementary information.

Capital Facilities Fund	County School Facilities Fund	Debt Service Fund	Total Non-Major Governmental Funds
$ -	$ -	$ -	$ 4,388,653
-	6,603,747	-	7,389,859
1,299,508	12,744	2,448	1,706,308
1,299,508	6,616,491	2,448	13,484,820
-	-	-	293,415
-	-	-	103,179
-	-	-	88,442
-	-	-	4,983,170
-	-	-	11,551
3,173	-	-	282,173
-	4,993	-	9,222
-	426,264	-	463,260
-	-	1,350,000	1,350,000
-	-	601,413	601,413
3,173	431,257	1,951,413	8,185,825
1,296,335	6,185,234	(1,948,965)	5,298,995
-	-	2,255,520	2,255,520
(408,850)	-	-	(408,850)
(408,850)	-	2,255,520	1,846,670
887,485	6,185,234	306,555	7,145,665
1,542,947	226,397	75,159	4,979,239
$ 2,430,432	$ 6,411,631	$ 381,714	$ 12,124,904

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

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

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances, and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts consist primarily of Medi-Cal Billing Option funds that in the previous period were recorded as revenues but were unspent. These unspent balances have been expended in the current period.

Description	CFDA Number	Amount
Total Federal Revenues Statement of Revenues, Expenditures, and Changes in Fund Balance:		$ 17,263,569
Medi-Cal Billing Option	93.778	149,776
Total Schedule of Expenditures of Federal Awards		$ 17,413,345

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 neither met nor exceeded its target funding. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of *Education Code* Sections 46200 through 46206.

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

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

Schedule of Financial Trends and Analysis

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

Schedule of Charter Schools

This schedule lists all charter schools chartered by the District, and displays information for each charter school on whether or not the charter school is included in the District's audit.

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 are 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

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

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

Governing Board
Victor Valley Union High School District
Victorville, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Victor Valley Union High 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 Victor Valley Union High School District's basic financial statements, and have issued our report thereon dated December 13, 2018.

Emphasis of Matter - Change in Accounting Principles

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

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Victor Valley Union High School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Victor Valley Union High School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Victor Valley Union High School District's internal control.

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

10681 Foothill Blvd., Suite 300, Rancho Cucamonga, CA 91730 P 909.466.4410 F 909.466.4431 W vtdcpa.com

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of Victor Valley Union High School District in a separate letter dated December 13, 20188.

Purpose of This Report

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

VAVRINEK, TRINE, DAY + CO. LLP

Rancho Cucamonga, California
December 13, 2018

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

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

Governing Board
Victor Valley Union High School District
Victorville, California

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

10681 Foothill Blvd., Suite 300, Rancho Cucamonga, CA 91730 P 909.466.4410 F 909.466.4431 W vtdcpa.com

__Opinion on Each Major Federal Program__

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

Report on Internal Control Over Compliance

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

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

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

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

Vavrinek, Trine, Day + Co. LLP

Rancho Cucamonga, California
December 13, 2018

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
Victor Valley Union High School District
Victorville, California

Report on State Compliance

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

Management's Responsibility

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

Auditor's Responsibility

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

Basis for Qualified Opinion on Instructional Materials

As described in the accompanying schedule of findings and questioned costs, Victor Valley Union High School District did not comply with requirements regarding Instructional Materials, item 2018-001. Compliance with such requirements is necessary, in our opinion, for Victor Valley Union High School District to comply with the requirements applicable to that program.

10681 Foothill Blvd., Suite 300, Rancho Cucamonga, CA 91730 P 909.466.4410 F 909.466.4431 W vtdcpa.com

Qualified Opinion on Instructional Materials

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

Unmodified Opinion on Each of the Other Programs

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

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

	Procedures Performed
LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	No, see below
Independent Study	No, see below
Continuation Education	Yes, see below
Instructional Time	Yes
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	No, see below
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	No, see below
Middle or Early College High Schools	No, see below
K-3 Grade Span Adjustment	No, see below
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	No, see below
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Independent Study - Course Based	No, see below

	Procedures Performed
CHARTER SCHOOLS	
Attendance	No, see below
Mode of Instruction	No, see below
Non Classroom-Based Instruction/Independent Study for Charter Schools	No, see below
Determination of Funding for Non Classroom-Based Instruction	No, see below
Annual Instruction Minutes Classroom-Based	No, see below
Charter School Facility Grant Program	No, see below

The District is a high school district and does not offer kindergarten classes. Therefore, we did not perform procedures over kindergarten compliance.

We did not perform testing over Independent Study because the ADA was below the materiality threshold required for testing.

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

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

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

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

The District is a high school district and does not offer K-3 classes. Therefore, we did not perform procedures over K-3 Grade Span Adjustment.

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

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

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

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

VAVRINEK, TRINE, DAY + CO. LLP

Rancho Cucamonga, California
December 13, 2018

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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

FINANCIAL STATEMENTS

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

FEDERAL AWARDS

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

Identification of major Federal programs:

CFDA Numbers	Name of Federal Program or Cluster
10.553, 10.555, and 10.559	Child Nutrition Cluster

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

STATE AWARDS

Type of auditor's report issued on compliance for State programs:	Unmodified

Unmodified for all programs except for the following program which was qualified:

Name of Program
Instructional Materials

FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018

None reported.

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

None reported.

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

The following finding represents an instance of noncompliance and/or questioned costs relating to State program laws and regulations. The findings have been coded as follows:

Five Digit Code	AB 3627 Finding Type
70000	Instructional Materials

Instructional Materials Public Hearing

2018-001 70000

Criteria or Specific Requirements

Pursuant to *Education Code* 60119, the District is required to hold a public hearing regarding the sufficiency of textbooks or other instructional materials on or before the eighth week from the first day pupils attended school for that year.

Condition

The District was found to be out of compliance with regard to when the public hearing for instructional materials was held. The District held the hearing on November 16, 2017, which was not within the first eight weeks of the start of school.

Questioned Costs

There were no questioned costs associated with this condition. However, the funding allocation of $583,998 could be considered as inappropriately claimed by the District resulting in a decrease of funding.

Context

The condition was identified through inquiry with District personnel and also through review of available District records related to the minutes of board meetings.

Effect

A public hearing, as required by *Education Code*, was not held within eight weeks from the first day of the school year.

Cause

Turnover in staff caused oversight of applicable compliance requirements.

Recommendation

The District should make every effort to hold the public hearing before the eight weeks prior to the start of school. The District should designate a management employee with the responsibility for making sure the public hearing is identified on the board agenda before the eight weeks have passed. This non-compliance could result in loss of funding in the amount $583,998.

Corrective Action Plan

The District did not meet the required public hearing date in 2017-2018; but it has been addressed in 2018-2019 with a Public Hearing being held on September 26, 2018 in accordance with the guidelines of *Education Code* 60119. The District will ensure compliance on an on-going basis.

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.

State Awards Findings

Instructional Materials

2017-001 70000

Criteria or Specific Requirements

Pursuant to *Education Code* 60119, the District is required to hold a public hearing regarding the sufficiency of textbooks or other instructional materials on or before the eighth week from the first day pupils attended school for that year.

Condition

The District was found to be out of compliance with regard to when the public hearing for instructional materials was held. The District held the hearing on April 19, 2017, which was not within the first eight weeks of the start of school.

Questioned Costs

There were no questioned costs associated with this condition. However, the 2012-2013 funding allocation of $583,998 could be considered as inappropriately claimed by the District, resulting in a decrease of funding.

Context

The condition was identified through inquiry with District personnel and through the review of available District records related to the minutes of board meetings.

Effect

A public hearing, as required by *Education Code*, was not held within eight weeks from the first day of the school year.

Cause

Turnover in staff was responsible for the oversight of the applicable compliance requirement.

Recommendation

The District should make every effort to hold the public hearing before the eight weeks prior to the start of school. The District should designate a management employee with the responsibility for making sure the public hearing is identified on the board agenda before the eight weeks have passed. This non-compliance could result in loss of funding in the amount $583,998.

Current Status

Not implemented. See Current Year Finding and Recommendation 2018-001.

After School Education and Safety Program (ASES)

2017-002 40000

Criteria or Specific Requirements

California Education Code Section 8483(a)(1) states that every after school component of a program established pursuant to this article shall commence immediately upon the conclusion of the regular school day, and operate a minimum of 15 hours per week, and at least until 6 p.m. on every regular school day. Every after school component of the program shall establish a policy regarding reasonable early daily release of pupils from the program.

Condition

The District has gathered monthly summaries of student attendance for submission to the State in order to meet the semi-annual reporting requirement. However, the Cobalt Institute for Math and Science (CIMS) monthly summary attendance totals for the month of November 2016 did not agree to site "Attendance Sign In Sheets." Per the audit, CIMS attendance rosters had a total of 1,251 students served compared to the site weekly roster noting 1,570 students served, resulting in 319 exceptions. Exceptions were deemed to be the difference between the count per client and count per the audit, based on appropriate attendance documentation of students served.

Questioned Costs

Under the provisions of the program, there are no questioned costs associated with this condition. However, for the site tested, there were 319 out of 1,570 students reported as served during the month of November 2016 for which the attendance rosters did not support amounts reported as students served.

Context

The condition identified resulted from our review of CIMS attendance records and monthly attendance summary totals for the month of November 2016. The auditor selected one of three schools for the first semi-annual reporting period dated July to December 2016.

Effect

As a result of the conditions identified, the District was not compliant with *Education Code* Section 8483(a)(1) for the 2016-2017 fiscal year for CIMS because the report submitted to the State reflects inaccurate attendance information.

Cause

It appears that the condition identified materialized as a result of the site utilizing the number of students attending for a particular day rather than recounting the rosters to ensure the sites deducted those students who are not in compliance with the established District sign in and sign out policies. The sites did not document the reason for the early release on the rosters for those students who were consistently released early from the ASES program.

Recommendation

The District should inform the sites of the importance of documenting the reason for the early release. Also, prior to the submission of attendance information to the State, the District should ensure the monthly summaries agree to the attendance summaries. An individual from the District should review and re-compute monthly attendance numbers per school site in order to verify that accurate information is being sent to the State for reporting.

Current Status

Implemented.

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

Governing Board
Victor Valley Union High School District
Victorville, California

In planning and performing our audit of the financial statements of Victor Valley Union High School District (the District) for the year ended June 30, 2018, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit, we noted matters that are opportunities for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated December 13, 2018, on the government-wide financial statements of the District.

INTERNAL CONTROL

Payment Voucher Disbursements

Observation

Two of 40 disbursements selected for testing lacked the proper back up documentation for the expenses incurred. The lack of documentation may indicate that the items/services were purchased without the proper approval.

Recommendation

All disbursements should be pre-approved prior to the transaction taking place. Disbursements should go through multiple levels of approval. One of the most important approvals is by the business department. The business department is responsible for reviewing account coding and making sure that expenditures are limited by established budgets.

Travel and Conference

Observation

Five of 40 travel and conference disbursements were not preapproved. This could potentially lead to expenditures of questionable nature if disbursements are not pre-approved.

Recommendation

The District should take the necessary steps to ensure that all conference related expenditures are supported by an authorized conference request and reimbursement form that is pre-approved. This would allow the reviewing administrator to determine if the proposed conference related activities are appropriate for the funding source.

10681 Foothill Blvd., Suite 300, Rancho Cucamonga, CA 91730 P 909.466.4410 F 909.466.4431 W vtdcpa.com

Credit Card – District Office

Observation

We noted seven credit card disbursements lacked an approval to use the credit card. This resulted in purchases made prior to an approval and review of the accounts for sufficient funds.

Recommendation

To strengthen internal controls over the purchasing function, the preapproved credit card forms should be prepared prior to purchasing or ordering merchandise. All disbursements should receive approval as specified by the District's purchasing policies prior to the goods or services being ordered. This will allow District staff to ensure sufficient funds are available for each purchase.

ASSOCIATED STUDENT BODY (ASB)

Lakeview Leadership Academy

Observations

During the testing of ASB funds, the following issues were noted:

1. Club advisors are not consistently submitting adequate supporting documentation for their cash collections. Each of the three deposits selected for testing contained multiple cash collections that were not adequately supported by logs, tally sheets, ticket sales forms, etc. Therefore, the completeness and timeliness of these cash collections could not be determined.
2. Cash collections are not being consistently deposited in a timely manner. Of three deposits tested, two contained cash collections that were not deposited in a timely manner. Late deposit times ranged from eight to 23 days.
3. Fundraising revenues are not consistently supported by logs, tally sheets, ticket sales forms, etc. Of two fundraisers tested, one did not contain adequate supporting documentation to substantiate the revenues collected through the event.
4. Through review of the "Item Valuation Report by Item Number" generated from the Blue Bear Accounting Software, it was noted that multiple ASB inventory items have negative quantity balances. This indicates that perpetual records are not being updated to reflect restocking of inventory. In addition, a physical inventory count has not been documented and reconciled to perpetual inventory records.

Recommendations

1. Pre-numbered triplicate receipts or logs should be utilized when collecting money for all ASB events and transactions. If utilizing a log, the students name and amount being turned in should be documented. If using a receipt book, the receipts should be issued in sequential order to all individuals turning in monies. Teachers and Administrators who collect monies should be equipped with a triplicate receipts book or log sheet. The white copy of the receipt should be issued to the person turning in the monies, the yellow receipt or log sheet should be utilized for deposit back-up, and the pink copy should be retained in the receipt book for audit purposes. When teachers are turning in monies for deposit, a Request for Deposit

should be turned in with the yellow copy of the receipts and monies to clearly identify the total amount being turned in.

2. The ASB should, at a minimum, make their deposits once a week to minimize the amount of cash held at the sites. During weeks of high cash activity, there may be a need to make more than one deposit. The District should communicate specific guidelines for this procedure including the maximum cash on hand that should be maintained at the site.
3. When a fundraising event occurs, those collecting cash should ensure that adequate receipting documentation has been maintained to substantiate the amount of actual revenues indicated on the associated revenue potential form. This can be achieved through the use of pre-numbered triplicate receipts, logs, tickets, etc.
4. Although the Blue Bear Accounting Software automatically tracks inventory quantities as sales occur, manual entries must be performed when inventory items are restocked. Whenever the ASB replenishes inventory items, the number of items purchased should be entered into Blue Bear. To ensure that inventory items are properly safeguarded and accounted for, the site should periodically reconcile perpetual inventory records to a physical inventory count. A physical inventory should be taken at least quarterly under the supervision of an administrator. The inventory listing should contain a description, unit cost, quantity, and extended value. This information is necessary in order to analyze sales activity, profits, and to determine if merchandise has been lost or stolen.

Silverado High School

Observations

During the testing of ASB funds, the following issues were noted:

1. Club advisors are not consistently submitting cash to the ASB Bookkeeper in a timely manner, resulting in late deposits of cash. Of 15 deposits tested, four contained cash collections that were not deposited in a timely manner. Late deposit times ranged from eight to 14 days.
2. Students make purchases on account and are expected to pay off their account balances by the end of each school year. Through review of the total outstanding account balances as of the audit date, $28,256 is due to the ASB. This balance includes many students who have already graduated or are no longer enrolled at the school site.
3. Of 25 disbursements tested, 22 were purchased through open purchase orders that do not indicate the name and address of individual vendors or the quantity of individual goods being purchased.
4. Of 25 disbursements tested, one was purchased prior to obtaining the appropriate approvals.
5. A ticket control log has not been maintained to track ticket numbers after ticketed events. Therefore, ending ticket numbers could not be reconciled between a control log and physical ticket rolls.

Recommendations

1. The ASB should, at a minimum, make their deposits once a week to minimize the amount of cash held at the sites. During weeks of high cash activity, there may be a need to make more than one deposit. The District should communicate specific guidelines for this procedure including the maximum cash on hand that should be maintained at the site.

2. The ASB should implement procedures to reduce the total outstanding account balance. The balance should be monitored periodically to ensure that students are paying back their purchases and the balance is not increasing.

3. The ASB should minimize the use of open purchase orders with high authorization amounts. The ASB should also be cognizant of its operating budget when creating these open purchase orders in order to prevent any instances of deficit spending. Furthermore, all purchase orders created and approved by the ASB should identify specific vendors, vendor addresses, and quantity of individual goods or services being purchased.

4. In order to ensure proper internal controls over the ASB disbursements, the site should ensure that all disbursement transactions are pre-approved by authorized administrative personnel and the student council. This would allow the reviewing administrator and/or the student council to determine if the proposed activities are appropriate and to determine if sufficient funding is available to finance the activities or the purchases. The ASB should make sure that expenditure authorization form is signed by the three authorized individuals. In addition, all goods being ordered should be documented with explicit receiving documentation. Documentation should indicate the date that the goods have been received and documentation regarding whether or not the goods have been received intact, undamaged, and in the correct quantities. Payments for vendor invoices should only be made once the receiving documentation is available.

5. Ticket logs should be updated after each event to accurately reflect the remaining tickets on each roll. When ticket rolls are issued, they should be logged out noting the beginning ticket number in the roll and to whom the roll was issued. When the ticket sales form is returned, the log should be updated and the form should be reconciled to the log.

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

VAVRINEK, TRINE, DAY + CO. LLP

Rancho Cucamonga, California
December 13, 2018