

LINCOLN UNIFIED SCHOOL DISTRICT
OF SAN JOAQUIN COUNTY
STOCKTON, CALIFORNIA
JUNE 30, 2017

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
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Tony Yadon	Vice President/Clerk	2018
Norrie Palmer	Member	2020
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Tom Uslan	Superintendent
Rebecca Hall	Associate Superintendent, Business Services
Kelly Dextraze	Associate Superintendent, Education Services
Michele Tatum	Associate Superintendent, Human Resources

LINCOLN UNIFIED SCHOOL DISTRICT

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I - Financial Section

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Cichella & Tokunaga, LLP

Certified Public Accountants

4671 Golden Foothill Parkway ♦ El Dorado Hills, CA 95672
Voice: (877) 359-9588 ♦ Fax: (916) 941-7234

www.ctcpa.net

INDEPENDENT AUDITORS' REPORT

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *the 2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information, such as management's discussion and analysis, budgetary comparison information, the Schedule of Other Postemployment Benefits (OPEB) Funding Progress and Schedule of the District's Proportionate Share of the Net Pension Liability, and Schedule of District's Contributions for Pensions 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 Lincoln Unified School District's basic financial statements. The Supplementary Information section, as listed in the Table of Contents, is presented for purposes of additional analysis and 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* and the *2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel, and are not a required part of the basic financial statements.

The Supplementary Information section is the responsibility of management and was derived from and relate 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 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 7, 2017 on our consideration of the Lincoln Unified School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is 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 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 Lincoln Unified School District's internal control over financial reporting and compliance.

Cubell + Tolinger, LLP

El Dorado Hills, California
December 7, 2017



This section of Lincoln Unified School District's (the "District") annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2017. Please read it in conjunction with the District's financial statements, which immediately follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

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

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

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

The *Fund Financial Statements* include statements for each of the three categories of activities: governmental, proprietary and fiduciary. The District does not have any business type activities.

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

The *Fiduciary Activities* are agency funds, which only report a balance sheet and do not have a measurement focus.

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 government is the Lincoln Unified School District. The Community Facility District No. 1 is a component unit of the District. Separate financial statements for the Community Facilities District No. 1 are not prepared.

LINCOLN UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2017

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 assets and changes in them. Net assets are the difference between assets and liabilities, one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net position are one indicator of whether its *financial health* 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's activities as follows:

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

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

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

LINCOLN UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2017

Governmental Funds – 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 difference of results in the governmental fund financial statements to those in the government-wide financial statements is explained in a reconciliation following each governmental fund financial statement.

Proprietary Funds – When the District charges users for the service it provides, whether to outside customers or to other departments within the District, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the *Statement of Net Position* and the *Statement of Revenue, Expenses and Changes in Fund Net Position*. We use internal service funds (a component of proprietary funds) to report activities that provide supplies and services for the District's other programs and activities – such as the District's Self-Insurance Fund. The internal service funds are reported with governmental activities in the government-wide financial statements.

THE DISTRICT AS A TRUSTEE

Reporting the District's Fiduciary Responsibilities

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

LINCOLN UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2017

FINANCIAL HIGHLIGHTS

THE DISTRICT AS A WHOLE

Net Position

The District's net position was \$(11.04) million and \$(13.02) million for the fiscal years ended June 30, 2017 and 2016, respectively. Our analysis below focuses on the net position (Table 1); and the change in net position (Table 2); of the District's governmental activities.

Table 1

(Amounts in millions)	Governmental Activities	
	2017	2016
Assets		
Current and other assets	\$ 58.17	\$ 59.67
Capital assets	142.96	131.84
Total Assets	201.13	191.51
Deferred Outflows of Resources		
Deferred outflows related to pensions	23.61	15.31
Deferred charge on refunding	0.77	0.91
Total Deferred Outflow of Resources	24.38	16.22
Liabilities		
Current liabilities	16.82	14.43
Long-term liabilities	212.71	199.45
Total Liabilities	229.53	213.88
Deferred Inflows of Resources		
Deferral related to pension activities	7.02	6.87
Total Deferred Inflow of Resources	7.02	6.87
Net Position		
Invested in capital assets, net of related debt	9.60	2.35
Restricted	29.54	39.40
Unrestricted	(50.18)	(54.77)
Total Net Position	\$ (11.04)	\$ (13.02)

LINCOLN UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2017

Changes in Net Position

The results of the 2016-17 operations for the District as a whole are reported in the *Statement of Activities* on page 17. Net position increased by \$1.98 million due to operating activities.

Table 2

(Amounts in millions)

	Governmental Activities	
	2017	2016
Revenues		
Program revenues:		
Charges for services	\$ 0.88	\$ 1.27
Operating grants and contributions	22.58	17.57
Capital grants and contributions	-	-
General revenues:		
Federal and State aid not restricted	70.47	69.03
Property taxes	22.69	21.11
Other general revenues	2.46	2.33
Total Revenues	119.08	111.31
Expenses		
Instruction-related	69.72	66.00
Pupil services	11.64	11.37
Administration	5.44	5.00
Maintenance and operations	11.07	9.21
Other	19.23	17.05
Total Expenses	117.10	108.63
Change in Net Position	1.98	2.68

Governmental Activities

As reported in the *Statement of Activities* on page 17, the cost of all of our governmental activities for the years ended June 30, 2017 and 2016 were \$117.10 million and \$108.63 million, respectively. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$22.69 million and \$21.11 million, respectively, because the cost was paid by those who benefited from the programs (\$0.88 and \$1.27 million, respectively) or by other governments and organizations who subsidized certain programs with grants and contributions (\$22.58 million and \$17.57 million respectively). We paid for the remaining "public benefit" portions of our governmental activities with \$70.47 and \$69.03 million, respectively, in other Federal and State sources, and with other revenues, like interest and general entitlements of \$2.46 and \$2.33 million, respectively.

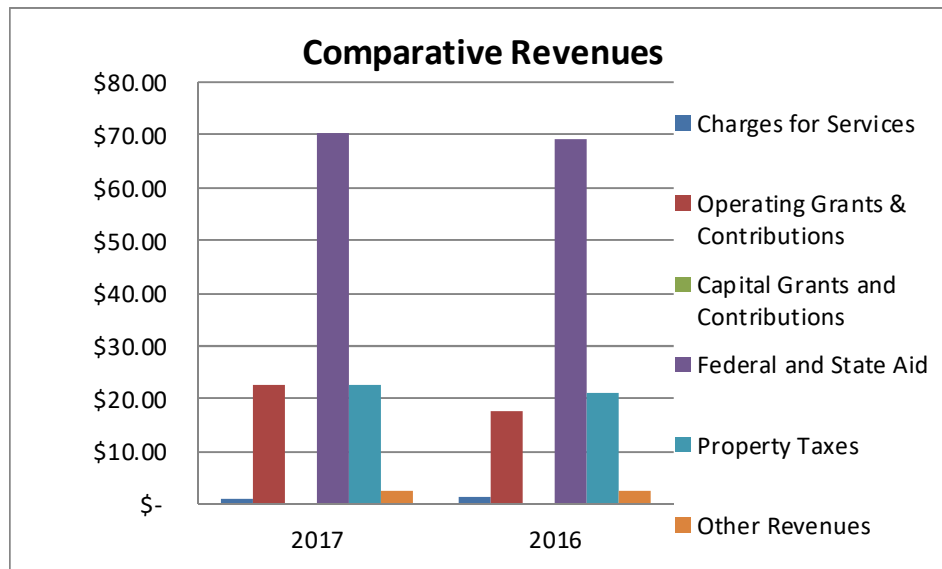
LINCOLN UNIFIED SCHOOL DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

Schedule of Revenues for Governmental Functions

(Amounts in millions)

	<u>2017</u>	<u>Percent of Total</u>	<u>2016</u>	<u>Percent of Total</u>
Revenues				
Program revenues:				
Charges for services and sales	\$ 0.88	0.74%	\$ 1.27	1.14%
Operating grants and contributions	22.58	18.96%	17.57	15.78%
Capital grants and contributions	-	0.00%	-	0.00%
General revenues:				
Federal and State aid not restricted	70.47	59.18%	69.03	62.02%
Property taxes	22.69	19.05%	21.11	18.97%
Other Revenues	2.46	2.07%	2.33	2.09%
Total Revenues	<u>\$ 119.08</u>	<u>100.00%</u>	<u>\$ 111.31</u>	<u>100.00%</u>



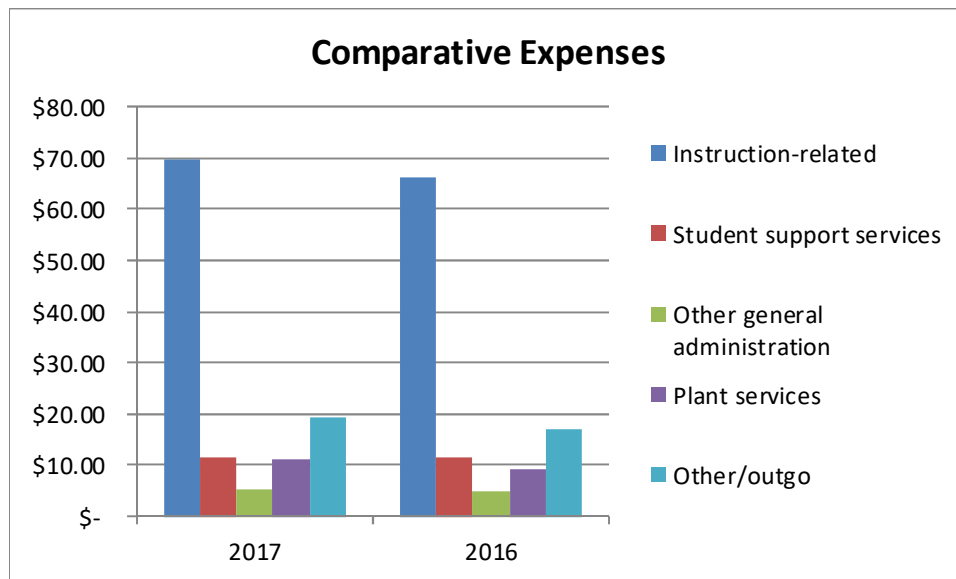
LINCOLN UNIFIED SCHOOL DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

Schedule of Expenses for Governmental Functions

(Amounts in millions)

	2017	Percent of Total	2016	Percent of Total
Expenses				
Instruction-related	\$ 69.72	59.54%	\$ 66.00	60.76%
Student support services	11.64	9.94%	11.37	10.47%
Other general administration	5.44	4.65%	5.00	4.60%
Plant services	11.07	9.45%	9.21	8.47%
Other/outgo	19.23	16.42%	17.05	15.70%
Total Expenses	\$ 117.10	100.00%	\$ 108.63	100.00%



LINCOLN UNIFIED SCHOOL DISTRICT

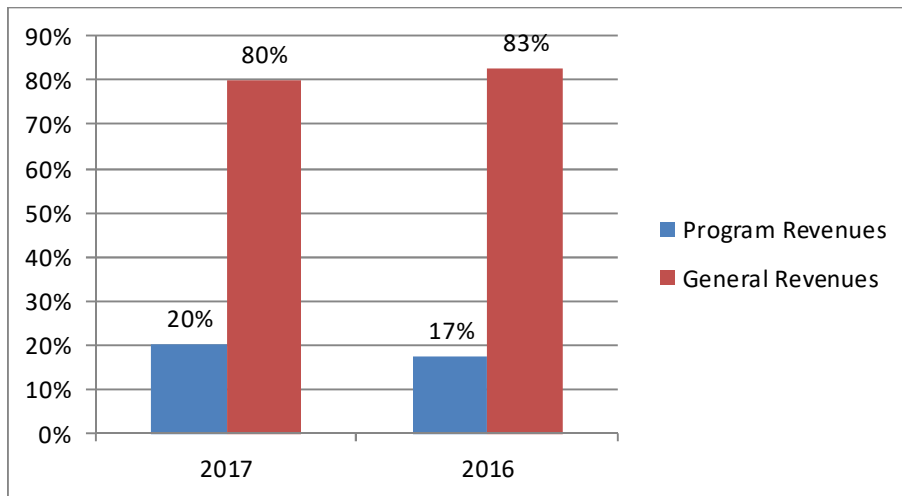
**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

In Table 3, we have presented the net cost (total cost less revenues generated by the activities) of each of the District's five largest functions – instruction and instruction related, student support services, administration, maintenance and operations, and other. 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

Program revenues financed 20 percent of the total cost of providing the service listed above, while the remaining 80 percent was financed by the general revenue of the District.

(Amounts in millions)	Total Cost of Services		Net Cost of Services	
	2017	2016	2017	2016
Instruction	\$ 69.72	\$ 66.00	\$ 57.12	\$ 55.36
Student Support Services	11.64	11.37	6.14	6.01
Administration	5.44	5.00	4.88	4.45
Maintenance and Operations	11.07	9.21	10.52	8.18
Other	19.23	17.05	14.97	15.79
Total	\$ 117.10	\$ 108.63	\$ 93.63	\$ 89.79



LINCOLN UNIFIED SCHOOL DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

THE DISTRICT'S FUNDS

As the District completed the years ended June 30, 2017 and 2016, our governmental funds and proprietary reported a combined fund balance of \$49,324,603 and \$52,586,886 respectively. This is a decrease of \$3,262,283 from the prior year.

Table 4

	Balances and Activity			
	June 30, 2016	Revenues	Expenditures	June 30, 2017
General	\$ 21,515,935	\$ 95,599,676	\$ 92,690,262	\$ 24,425,349
Charter	159,996	2,775,501	2,283,463	652,034
Child Development	635,511	2,090,988	2,043,051	683,448
Cafeteria	1,140,953	3,998,540	4,326,511	812,982
Deferred Maintenance	1,542,810	1,644,252	1,115,821	2,071,241
Building	16,535,817	75,799	12,287,917	4,323,699
Capital Facilities	303,560	4,578	100,000	208,138
County School Facilities Fund	49,628	410	-	50,038
Special Reserve for Capital Outlay Projects Fund	-	4,424,670	-	4,424,670
Capital Project Fund for Blended Component Units	2,298,644	3,082,095	3,690,450	1,690,289
Bond Interest and Redemption Fund	5,246,764	5,598,369	5,933,560	4,911,573
Debt Services Fund for Blended Component Units	2,871,400	22,375,889	20,475,527	4,771,762
Total	\$ 52,301,018	\$ 141,670,767	\$ 144,946,562	\$ 49,025,223
Self-Insurance Fund	285,868	643,758	630,246	299,380
Total	\$ 52,586,886	\$ 142,314,525	\$ 145,576,808	\$ 49,324,603

General Fund Budgetary Highlights

Throughout the year, the District revised its budget to accommodate unexpected changes in revenues and expenditures. The final revision of the 2016-17 budgets was completed June 30, 2017. A schedule showing the District's original and final budget figures compared with amounts actually paid and received is provided in our annual report on page 73.

LINCOLN UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2017

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2017 and 2016, the District had \$142.96 and \$131.85 million, respectively, in a broad range of capital assets net of accumulated depreciation, including land, buildings, furniture and equipment. For 2017 this represents a net increase (including additions, deductions and depreciation) of \$11.11 million, from the prior year.

Table 5

(Amounts in million)

	Capital Assets	
	2017	2016
Land	\$ 12.09	\$ 8.91
Building and improvements	98.72	101.53
Equipment	1.95	1.91
Work in Progress	30.20	19.50
Totals	\$ 142.96	\$ 131.85

Long-Term Obligations

At June 30, 2017 and 2016, the District had \$219.01 million and \$204.57 million, respectively, in bonds outstanding. The bonds were issued for construction projects. Long-term obligations consisted of:

Table 6

(Amounts in millions)

	Long-Term Obligations	
	2017	2016
Community facilities district bonds	\$ 27.58	\$ 25.07
General obligation bonds	81.12	83.94
Bond premiums net of amortization	5.45	4.08
Certificates of participation	3.68	2.18
Other	20.11	18.97
Net Pension Liability	81.07	70.33
Totals	\$ 219.01	\$ 204.57

Other obligations include compensated absences payable, other post-employment benefits, qualified zone academy bonds, accreted interest on bonds, and technical education loans.

We present more detailed information regarding our long-term obligations in Note 8 of the financial statements.

LINCOLN UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2017

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

Lincoln Unified has successfully implemented our fourth year of our Local Control and Accountability Plan (LCAP) which was adopted in June of 2016. We met many times with our stakeholders and developed a comprehensive plan that we revise annually. Factors bearing on the district will continue to be enrollment and student attendance which is key to the District's financial projections. The District has consistently seen growth in recent years and this trend has changed slightly to a decline. In addition, the increase to employer contributions to CalSTRS and CalPER'S through fiscal year 2020-2021 are an area of concern. The District has continued to budget for the implementation of 1:1 technology 2-12th grade.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET ASSUMPTIONS

The District used the following assumptions in constructing the 2017/18 fiscal year budget. The information provided below is current as of July 1, 2017.

Local Control Funding Formula (LCFF)

The LCFF provides base, supplemental, and concentration grants in place of most previously existing Funding sources, including revenue limits and most state categorical programs. As part of the LCFF, the District will be required to develop, adopt, and annually update three-year Local Control and Accountability Plan (LCAP) using a template adopted by the California State Board of Education.

Key assumptions in expenditure forecasting:

	<u>Staffing Ratio</u>
Grades kindergarten through third	24:1
Grades four through six	30:1
Grades seven through eight (at K-8 sites)	25:1
Grades seven and eight	32:1
Grades nine through twelve	32:1

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact the District's Associate Superintendent, Business Services, Rebecca Hall, at Lincoln Unified School District, 2010 W. Swain Road, Stockton, California, 95207 or email at rmhall@lusd.net

LINCOLN UNIFIED SCHOOL DISTRICT

STATEMENT OF NET POSITION JUNE 30, 2017

	Governmental Activities
ASSETS	
Deposits and investments	\$ 54,763,219
Receivables	3,120,548
Stores inventories	283,884
Capital assets not depreciated	227,720,715
Accumulated depreciation of capital assets	(84,755,427)
Total Assets	201,132,939
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to pensions	23,615,967
Deferred charge on refunding	769,014
Total Deferred Outflows of Resources	24,384,981
LIABILITIES	
Accounts payable	8,024,171
Interest payable	1,681,996
Unearned revenue	818,877
Current portion of long-term obligations	6,297,483
Noncurrent portion of long-term obligations	212,712,683
Total Liabilities	229,535,210
DEFERRED INFLOW OF RESOURCES	
Deferred inflow related to pensions	7,019,114
Total Deferred Inflows of Resources	7,019,114
NET POSITION	
Invested in capital assets, net of related debt	9,606,582
Restricted for:	
Debt services	9,683,335
Educational programs	4,694,699
Capital projects	10,696,834
Other activities (expendible)	4,166,937
Self Insurance	299,380
Unrestricted	(50,184,171)
Total Net Position	\$ (11,036,404)

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

LINCOLN UNIFIED SCHOOL DISTRICT

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017**

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
Instruction	\$ 61,533,078	\$ 146,682	\$ 11,540,260	\$ 410	\$ (49,845,726)
Instruction-related activities:					
Supervision of instruction	1,604,754	1,618	588,404	-	(1,014,732)
Instructional library, media, and technology	1,053,950	-	13,757	-	(1,040,193)
School site administration	5,527,000	507	304,137	-	(5,222,356)
Pupil services:					
Home-to-school transportation	1,233,990	-	-	-	(1,233,990)
Food services	4,224,657	463,450	3,350,761	-	(410,446)
All other pupil services	6,185,699	349	1,686,618	-	(4,498,732)
Administration:					
Data processing	1,875,791	-	-	-	(1,875,791)
All other administration	3,563,864	22,177	541,131	-	(3,000,556)
Plant services	11,070,638	1,712	548,640	-	(10,520,286)
Enterprise services	630,246	-	-	-	(630,246)
Ancillary services	749,121	4,585	77,338	-	(667,198)
Community services	58,291	-	-	-	(58,291)
Interest on long-term obligations	5,088,520	-	-	-	(5,088,520)
Other outgo	5,495,972	236,961	3,932,017	-	(1,326,994)
Depreciation (unallocated)	7,205,612	-	-	-	(7,205,612)
Total Governmental Activities	\$117,101,183	\$ 878,041	\$ 22,583,063	\$ 410	(93,639,669)
General revenues and subventions:					
					13,719,761
					5,465,983
					3,503,052
					70,475,970
					233,544
					1,579,286
					643,758
					<u>95,621,354</u>
					Change in Net Position
					1,981,685
					<u>(13,018,089)</u>
					<u>\$ (11,036,404)</u>

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

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LINCOLN UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS – BALANCE SHEET
 JUNE 30, 2017

	General Fund	Debt Service Fund	Non-Major Governmental Funds
ASSETS			
Deposits and investments	34,818,866	\$ 4,770,274	\$ 14,917,075
Receivables	2,247,284	1,488	871,047
Due from other funds	593,867	-	7,615,318
Prepaid expenditures	-	-	-
Stores inventories	190,180	-	93,704
Total Assets	<u>37,850,197</u>	<u>4,771,762</u>	<u>23,497,144</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	6,576,198	-	1,443,942
Due to other funds	6,084,348	-	2,170,515
Unearned revenue	764,302	-	54,575
Total Liabilities	<u>13,424,848</u>	<u>-</u>	<u>3,669,032</u>
Fund Balances:			
Nonspendable	205,180	-	93,704
Restricted	4,641,931	4,771,762	17,063,901
Committed	-	-	-
Assigned	5,344,409	-	2,670,507
Unassigned	14,233,829	-	-
Total Fund Balance	<u>24,425,349</u>	<u>4,771,762</u>	<u>19,828,112</u>
Total Liabilities and Fund Balances	<u>37,850,197</u>	<u>\$ 4,771,762</u>	<u>\$ 23,497,144</u>

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

**Total
Governmental
Funds**

\$ 54,506,215
3,119,819
8,209,185
-
283,884

66,119,103

8,020,140
8,254,863
818,877

17,093,880

298,884
26,477,594
-

8,014,916
14,233,829

49,025,223

\$ 66,119,103

LINCOLN UNIFIED SCHOOL DISTRICT

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

Total Fund Balance - Governmental Funds **\$ 49,025,223**

**Amounts Reported for Governmental Activities in the Statement of
Net Assets 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	\$ 227,720,715	
Accumulated depreciation is	<u>(84,755,427)</u>	
Net Capital Assets		142,965,288

In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. On the government-wide statements unmatured interest on long-term obligations is recognized when it is incurred. (1,681,996)

An internal service fund is used by the District's management to charge the costs of the proprietary and liability insurance programs to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities. 299,380

In governmental funds, deferred outflows of resources resulting from defeasance of debt are not recorded. In governmental activities, for advance refunding resulting in defeasance of debt reported in governmental activities, the difference between reacquisition price and the net carrying amount of the retired debt are reported as a deferred outflow of resources. 769,014

Deferrals resulting from pension adjustments and changes in the net pension liabilities do not require the use of current resources and therefore are not recorded on the governmental funds. 23,615,967

The difference between projected and actual pension plan investments earnings are not recognized on the modified accrual basis, but are recognized on the accrual basis as an adjustment to pension expense. (7,019,114)

LINCOLN UNIFIED SCHOOL DISTRICT

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

Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore, are not reported as liabilities in the funds.

Long-term liabilities at year end consist of:

General obligation bonds	81,115,536	
Bond premium net of amortization	5,455,885	
Accreted interest on bonds	13,421,531	
Community facilities bonds	27,576,568	
Certificates of participation	3,680,000	
Qualified zone academy bond	1,089,836	
Technical education loans	1,019,380	
Net OPEB obligation	4,323,226	
Compensated absences	255,629	
Net pension liability	<u>81,072,575</u>	
Total Long-Term Obligations		<u>(219,010,166)</u>
Total Net Position - Governmental Activities		<u><u>\$ (11,036,404)</u></u>

LINCOLN UNIFIED SCHOOL DISTRICT

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

	General Fund	Debt Service Fund	Non-Major Governmental Funds
REVENUES			
LCFF sources	\$ 77,702,172	\$ -	\$ 2,842,856
Federal sources	4,721,058	-	3,391,414
Other State sources	9,125,774	-	1,349,783
Other local sources	4,050,672	2,203,676	13,051,705
Total Revenues	95,599,676	2,203,676	20,635,758
EXPENDITURES			
Current			
Instruction	56,884,103	-	3,050,410
Instruction-related activities:			
Supervision of instruction	1,296,180	-	273,157
Instructional library, media and technology	965,098	-	48,477
School site administration	4,945,759	-	424,153
Pupil services:			
Home-to-school transportation	1,033,247	-	-
Food services	-	-	4,130,938
All other pupil services	6,167,069	-	-
Administration:			
All other administration	2,893,064	-	593,700
Data processing services	1,663,059	-	-
Plant services	10,439,563	-	129,659
Facilities acquisition and construction	1,944,166	-	16,634,067
Ancillary Services	744,549	-	-
Community Services	82,775	-	-
Other outgo	1,709,605	-	-
Debt service:			
Principal	-	16,285,000	3,309,624
Interest and other	-	1,026,006	3,186,588
Cost of issuance	-	3,164,521	-
Total Expenditures	90,768,237	20,475,527	31,780,773
Excess (Deficiency) of Revenues			
Over Expenditures	4,831,439	(18,271,851)	(11,145,015)
Other Financing Sources (Uses)			
Transfers in	-	-	1,299,607
Other sources	-	20,172,213	1,759,837
Transfers out	(1,922,025)	-	-
Net Financing Sources (Uses)	(1,922,025)	20,172,213	3,059,444
NET CHANGE IN FUND BALANCES	2,909,414	1,900,362	(8,085,571)
Fund Balance - Beginning	21,515,935	2,871,400	27,913,683
Fund Balance - Ending	\$ 24,425,349	\$ 4,771,762	\$ 19,828,112

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



Total Governmental Funds	
\$	80,545,028
	8,112,472
	10,475,557
	19,306,053
	<u>118,439,110</u>
	59,934,513
	1,569,337
	1,013,575
	5,369,912
	1,033,247
	4,130,938
	6,167,069
	3,486,764
	1,663,059
	10,569,222
	18,578,233
	744,549
	82,775
	1,709,605
	19,594,624
	4,212,594
	3,164,521
	<u>143,024,537</u>
	<u>(24,585,427)</u>
	1,299,607
	21,932,050
	(1,922,025)
	<u>21,309,632</u>
	(3,275,795)
	52,301,018
\$	<u><u>49,025,223</u></u>

LINCOLN UNIFIED SCHOOL DISTRICT

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

Total Net Change in Fund Balances - Governmental Funds	\$ (3,275,795)
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:	
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures; however, for governmental activities, those costs are shown in the statement of net position and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities.	
This is the amount by which capital outlays exceed depreciation in the period.	
Depreciation expense	\$ (7,205,612)
Capital outlays	<u>18,404,930</u>
Net Expense Adjustment	11,199,318
Proceeds from debt provided current financial resources to governmental funds. However, issuing debt increases long-term liabilities in the statement of net position.	(20,295,000)
Increases in the liability for other postemployment benefits (OPEB) are not recorded as expenditures in governmental funds because they are not expected to be liquidated with current financial resources. Decreases to the liability are reported as expenditures in governmental funds, however, the payments reduce the long-term liability in the statement of net position.	(94,959)
In the statement of activities, certain operating expenses, such as compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid).	7,223
Bond premiums are revenue in the governmental funds in the year bonds are issued, but are recorded as a long-term liability and amortized over the term of the bonds, in the statement of net position.	(1,371,478)
Payment of principal on long-term liabilities is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net position and does not affect the statement of activities.	19,594,625
Accreted interest on capital appreciation bonds is accrued as long-term debt in the government-wide financials, increasing expense.	(1,541,085)
In governmental funds, deferred outflows of resources are not recognized. In the government-wide statements, deferred outflows of resources are amortized over the shortened life of the refunded or refunding debt.	(144,191)

LINCOLN UNIFIED SCHOOL DISTRICT

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

Gains and losses on disposal of capital assests	(73,418)
Interest on long-term obligations is recorded as an expenditure in the funds when it is due; however, in the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. This is the net change in interest expense.	544,349
An internal service fund is used by the District's management to charge the costs of the property and liability insurance program to the individual funds. The net revenue of the internal service fund is reported with governmental activities.	13,512
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.	(2,581,416)
Change in Net Position of Governmental Activities	<u><u>\$ 1,981,685</u></u>

LINCOLN UNIFIED SCHOOL DISTRICT

PROPRIETARY FUND
STATEMENT OF NET POSITION
JUNE 30, 2017

	Governmental Activities - Internal Service Fund
ASSETS	
Current Assets	
Deposits and investments	\$ 257,004
Receivables	729
Due From Other Funds	45,678
Total Current Assets	<u>303,411</u>
LIABILITIES	
Current Liabilities	
Accounts Payable	4,031
Total Current Liabilities	<u>4,031</u>
NET POSITION	
Restricted	299,380
Total Net Position	<u>\$ 299,380</u>

LINCOLN UNIFIED SCHOOL DISTRICT

PROPRIETARY FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2017

	Governmental Activities - Internal Service Fund
OPERATING REVENUES	
Local and intermediate sources	\$ 20,032
Transfers in	622,418
Total Operating Revenues	<u>642,450</u>
OPERATING EXPENSES	
Other operating costs	\$ 630,246
Transfers out	-
Total Operating Expenses	<u>630,246</u>
Operating Income (Loss)	<u>12,204</u>
NONOPERATING REVENUES (EXPENSES)	
Interest income	<u>1,308</u>
Total Nonoperating Revenues (Expenses)	<u>1,308</u>
Income (Loss) Before Capital Contributions	<u>13,512</u>
Change in Net Position	<u>13,512</u>
Total Net Position - Beginning	<u>285,868</u>
Total Net Position - Ending	<u>\$ 299,380</u>

LINCOLN UNIFIED SCHOOL DISTRICT

**PROPRIETARY FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017**

	Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash from Local Revenue	\$ (23,467)
Cash payments to suppliers for goods and services	(630,246)
Transfers in	622,418
Net Cash Used by Operating Activities	<u>(31,295)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	<u>1,308</u>
 Net Decrease in Cash and Cash Equivalents	(29,987)
Cash and Cash Equivalents - Beginning	286,991
Cash and Cash Equivalents - Ending	<u>\$ 257,004</u>
 RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Operating income	12,204
Changes in operating assets and liabilities:	
Accounts receivable	(312)
Due from other funds	(45,678)
Accounts payable	2,491
NET CASH USED BY OPERATING ACTIVITIES	<u>\$ (31,295)</u>

LINCOLN UNIFIED SCHOOL DISTRICT

**FIDUCIARY FUND
STATEMENT OF NET POSITION
JUNE 30, 2017**

	Fiduciary Funds
ASSETS	
Deposits and investments	\$ 740,914
Total Assets	<u>740,914</u>
LIABILITIES	
Due to student groups	740,914
Total Liabilities	<u>\$ 740,914</u>

LINCOLN UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Lincoln Unified School District was established on May 23, 1865 under the laws of the State of California. The District operates under a locally elected five-member Board form of government and provides educational services to grades kindergarten through twelve as mandated by the State and/or Federal agencies. The District operates eight elementary, one middle school, one high school and two continuation schools.

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

Component Units

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District, in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete. The District's component units include John McCandless Charter School. 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 District and Community Facilities District No. 1 ("CFD") have a financial and operational relationship which meets the reporting entity definition criteria of the *Codification of Governmental Accounting and Financial Reporting Standards, Section 2100*, for inclusion of CFD as a blended component unit of the District. Therefore, the financial activities of CFD have been included in the financial statements of the District. The following are those aspects of the relationship between the District and CFD which satisfy *Codification of Governmental Accounting and Financial Reporting Standards, Section 2100* criteria:

Manifestations of Oversight

- CFD's Board of Directors were appointed by the District's Board of Trustees.
- CFD has no employees. The District's Superintendent functions as an agent of CFD. Neither individual received additional compensation for work performed in this capacity.
- The District exercises significant influence over operations of CFD as it is anticipated that the District will be the sole lessee of all facilities owned by CFD.

Accounting for Fiscal Matters

- All major financing arrangements, contracts, and other transactions of CFD must have the consent of the District.
- Any deficits incurred by CFD will be reflected in the lease payments of the District. Any surpluses of CFD revert to the District at the end of the lease period.

LINCOLN UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

- It is anticipated that the District's lease payments will be the sole revenue source of CFD.
- The District has assumed a "moral obligation," and potentially a legal obligation, for any debt incurred by CFD.

Scope of Public Service and Financial Presentation

- CFD was created for the sole purpose of financially assisting the District.
- CFD is a nonprofit, public benefit corporation incorporated under the laws of the State of California and recorded by the Secretary of State. CFD was formed to provide financing assistance to the District for construction and acquisition of major capital facilities. Upon completion the District intends to occupy all CFD facilities. When CFD's Certificates of Participation have been paid with state reimbursements and the District's developer fees, title of all CFD property will pass to the District for no additional consideration.
- CFD's financial activity is presented in the financial statements as the Building Fund. Certificates of Participation issued by CFD are included in the government-wide financial statements.

Other Related Entities

Public Entity Risk Pools and Joint Powers Authorities The District is associated with five public entity risk pools and one joint powers authorities. These organizations do not meet the criteria for inclusion as component units of the District. Additional information is presented in Note 14 to the financial statements. These organizations are:

San Joaquin County Schools Workers' Compensation Insurance Group
San Joaquin County Schools Property and Liability Insurance Group
San Joaquin County Schools Data Processing Group
Schools Excess Liability Fund
Northern California Regional Liability Excess Fund
Central Valley Schools Health and Welfare Trust

Basis of Presentation

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 three broad range fund categories: governmental, proprietary, 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.

LINCOLN UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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 a District. All transactions except those required or permitted by law to be in another fund are accounted for in this fund.

Debt Service Funds The Debt Service Funds are established to account for the accumulation of resources for and the payment of principal and interest on general long-term debt.

Debt Service Fund The Debt Service Fund is used to account for debt service purposes of the Community Facilities District.

Non-Major Governmental Funds

Special Revenue Funds The Special Revenue Funds are established to account for the proceeds from specific revenue sources (other than trusts or for major capital projects) that are restricted to the financing of particular activities. The District maintains the following special revenue funds:

Charter School Fund This Special Revenues Fund may be used by authorizing districts to account separately for the activities of district-operated charter schools that would otherwise be reported in the authorizing district's General Fund.

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

Child Development Fund The Child Development Fund is used to account separately for federal, state, and local revenues to operate child development programs (Education Code Sections 8200 and 8328).

Deferred Maintenance Fund The Deferred Maintenance Fund is used to account separately for State apportionments and the District's contributions for deferred maintenance purposes (Education Code Sections 17582-17587) and for items of maintenance approved by the State Allocation Board.

Capital Project Funds The Capital Project Funds are established to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds). The District maintains the following capital project 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 purpose other than those for which the bonds were issued.

Capital Facilities Fund The Capital Facilities Fund is used to account for resources received from developer impact fees assessed under provisions of the California Environmental Quality Act (CEQA).

LINCOLN UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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 1A), the 2002 State School Facilities Fund (Proposition 47), or the 2004 State School Facilities Fund (Proposition 55) 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.).

Special Reserve Capital Outlay Fund The Special Reserve Fund was used to account for funds set up for Board designated construction projects.

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 Facility District and similar entities that are considered blended component units of the District under generally accepted accounting principles (GAAP).

Debt Service Funds The Debt Service Funds are established to account for the accumulation of resources for and the payment of principal and interest on general long-term debt.

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

Proprietary Funds Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. The District applies all GASB pronouncements, as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. Proprietary funds are classified as enterprise or internal service. The District has the following proprietary fund:

Internal Service Fund Internal service funds may be used to account for any activity for which goods or services are provided to other funds of the District in return for a fee to cover the cost of operations. The District operates a property and liability self-insurance fund that is accounted for in an internal service fund.

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 is that trust funds are subject to a trust agreement that affects the degree of management involvement and the length of time that the resources are held.

Agency Fund Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of result of operations. The District's agency fund accounts for student body activities (ASB).

LINCOLN UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Basis of Accounting – Measurement Focus

Government-Wide Financial Statements The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District and its component units.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the fiduciary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental funds.

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

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

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

Governmental Funds All governmental funds are accounted for using the flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance reports on the sources (revenues and other finance sources) and uses (expenditures and other financing uses) or 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.

LINCOLN UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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

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 90 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 gains, 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 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 based 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. Principal and interest on long-term obligations, which has not matured, are recognized when paid in the governmental funds. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

LINCOLN UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Cash and Cash Equivalents

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

Investments

Investments held at June 30, 2017, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county investment pool are determined by the program sponsor.

Prepaid Expenditures

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

Stores Inventory

Inventories are recorded using the consumption method, in that inventory acquisitions are initially recorded in inventory (asset) accounts, and are charged as expenditures when used. Reported inventories are equally offset by nonspendable fund balance which indicates that these amounts are not "available for appropriation and expenditure" even though they are a component of net current assets. The District's cafeteria inventory valuation is First-in-First-out (FIFO).

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 cost 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 assets. The valuation basis for capital assets is historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. Donated capital assets are capitalized at estimated fair market value on the date donated.

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

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

LINCOLN UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position also reports deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The District reports deferred outflows of resources for the unamortized loss on the refunding of general obligation bonds and current year pension contributions.

In addition to liabilities, the statement of financial 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 the difference between actual and expected rate of return on investments specific to the net pension liability.

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.

Interfund Balances (Due to/from)

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

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 assets. 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.

LINCOLN UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Accrued Liabilities and Long-Term Obligations

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

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

Premiums and Discounts

In the government-wide financial statements and in the proprietary fund type financial statements, long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method.

Fund Balance Reporting

The District reports fund balance within one of the following categories:

Nonspendable such as fund balance associated with inventories, prepaids, long-term loans and notes receivable, and property held for resale (unless the proceeds are restricted, committed, or assigned),

Restricted fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resources providers, or through enabling legislation,

Committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the School District Governing Board (the district's highest level of decision-making authority),

Assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed, and

Unassigned fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications.

Committed Fund Balance Policy For funds that are determined to fall within the "Committed Fund Balance" classification, the Governing Board, as the District's highest level of decision-making authority, may commit fund balance for specific purposes pursuant to constraints imposed by formal actions taken, such as a majority vote or resolution. These committed amounts cannot be used for any other purpose unless the Governing Board removes or changes the specific use through the same type of formal action taken to establish the commitment. Governing Board action to commit fund balance needs to occur within the fiscal reporting period, no later than June 30th; however, the amount can be determined with the release of the financial statements.

LINCOLN UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Assigned Fund Balance Policy Amounts that are constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed, should be reported as assigned fund balance. The District delegates the authority to assign amounts to be used for specific purposes to the Chief Business Official for the purpose of reporting these amounts in the financial statements.

Minimum Fund Balance Policy The purpose of the District's fund balance policy is to maintain a prudent level of financial resources to protect against reducing service levels because of temporary revenue shortfalls or unpredicted one-time expenditures.

The District has adopted a policy to achieve and maintain unrestricted fund balance in the General Fund of 3 percent of total General Fund expenditures, other uses and transfers out at the close of each fiscal year, consistent with the recommended level promulgated by the State of California.

Order of Fund Balance Spending Policy For which amounts in any of the unrestricted fund balance classifications could be used, the District's policy is to apply expenditures in the following order: committed, assigned, and then unassigned.

First, non-spendable fund balances are determined. Then restricted fund balances for specific purposes are determined (not including non-spendable amounts). Then any remaining fund balances amounts for the non-general funds are classified as restricted fund balance.

It is possible for the non-general funds to have negative unassigned fund balance when non-spendable amounts plus the restricted fund balances for specific purposes amounts exceed the positive fund balances for the non-general fund.

Net Position

Net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt 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.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues include other local sources. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the fund. All revenues and expenses not meeting this definition such as interest revenue are reported as non-operating revenues and expenses.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for

LINCOLN UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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.

Budgetary Data

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

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for. For purposes of the budget, on behalf payments have not been included as revenue and expenditures as required under generally accepted accounting principles.

Property Tax

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

Change in Accounting Principles

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial report of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pension and OPEB) with regard to providing decision-useful information, supporting assessments or accountability and inter-period equity, and creating additional transparency.

This Statement replaces Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirement for defined contribution OPEB plans that replaces the requirement for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contributions Plans*, as amended, Statement No. 43, and Statement No. 50, *Pension disclosures*.

LINCOLN UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

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

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

Prior to the issuance of this Statement, the requirements of Statement No. 68 applied to the financial statements of all state and local governmental employers whose employees are provided with pensions through pension plans that are administered through trusts that meet the criteria in paragraph 4 of that Statement. This Statement amends the scope and applicability of Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above.

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

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

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

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

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

LINCOLN UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

New Accounting Pronouncements

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

This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans. This Statement is effective for financial statements for periods beginning after June 15, 2017.

GASB Statement No. 81 – In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. The object of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreement by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement is effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively.

GASB Statement No. 84 – In January 2017, 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 Statement is effective for reporting periods beginning after December 15, 2018.

GASB Statement No. 85 – In March 2017, GASB issued Statement No. 85, *Omnibus 2017*. The objective 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. The Statement is effective for periods beginning after June 15, 2017.

GASB Statement No. 86 – In May 2017, 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. The Statement is effective for periods beginning after June 15, 2017.

LINCOLN UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

NOTE 2 – DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

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

Governmental activities	\$ 54,506,214
Self-Insurance Fund	257,004
Fiduciary funds	740,914
Total Deposits and Investments	\$ 55,504,132

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

Cash on hand and in banks	\$ 5,053,197
Cash in revolving accounts	15,000
Investments	50,435,935
Total Deposits and Investments	\$ 55,504,132

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.

LINCOLN UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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 Fund	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

Authorized Under Debt Agreements

Investments of debt proceeds held by bond trustees are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code. These provisions allow for the acquisition of investment agreements with maturities of up to 30 years.

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 primarily investing in the San Joaquin County Investment Pool.

LINCOLN UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

Weighted Average Maturity

The District monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. Information about the weighted average maturity of the District's portfolio is present in the following schedule:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Days to Maturity</u>
San Joaquin County Investment Pool	\$ 50,193,843	490 days

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. 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.

<u>Investment Type</u>	<u>Minimum Legal Rating</u>	<u>Rating June 30, 2017</u>	<u>Fair Value</u>
San Joaquin County Investment Pool	Not Required	Unrated	\$ 50,193,843

Custodial Credit Risk – Deposits

The District limits custodial credit risk by ensuring uninsured balances are collateralized by the respective financial institution. Cash balances held in banks are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC) and are collateralized by the respective financial institution. At June 30, 2017, the carrying amount of the District's accounts was \$5,068,197 and the bank balance was \$5,071,088. Of the bank balance, \$250,000 was insured by the FDIC, and \$288,387 remained uninsured. Uninsured balances are fully collateralized by the banks in accordance with applicable laws

LINCOLN UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 3 – RECEIVABLES

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

	Governmental Funds			Total	Self Insurance Funds
	General Fund	Debt Service Funds	Non-Major Governmental Funds		
Federal Government					
Categorical aid	\$ 1,016,495	\$ -	\$ 455,075	\$ 1,471,570	\$ -
State Government					
Apportionment	1,177	-	4	1,181	-
Other State	1,050,034		150,238	1,200,272	-
Local Government					
Interest	80,657	1,488	29,633	111,778	729
Other Local Sources	98,921	-	236,097	335,018	-
Total	<u>\$ 2,247,284</u>	<u>\$ 1,488</u>	<u>\$ 871,047</u>	<u>\$ 3,119,819</u>	<u>\$ 729</u>

LINCOLN UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 4 – CAPITAL ASSETS

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

	Balance July 1, 2016	Additions	Deductions	Balance June 30, 2017
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	\$ 8,913,336	\$ 3,180,594	\$ -	\$ 12,093,930
Work in Progress	19,488,463	17,996,697	7,288,074	30,197,086
Total Capital Assets Not Being Depreciated	<u>28,401,799</u>	<u>21,177,291</u>	<u>7,288,074</u>	<u>42,291,016</u>
Capital Assets Being Depreciated:				
Land Improvements	20,288,807	831,870	-	21,120,677
Buildings and Improvements	155,193,973	3,275,610	340,056	158,129,527
Furniture and Equipment	5,827,895	408,233	56,633	6,179,495
Total Capital Assets Being Depreciated	<u>181,310,675</u>	<u>4,515,713</u>	<u>396,689</u>	<u>185,429,699</u>
Total Capital Assets	<u>209,712,474</u>	<u>25,693,004</u>	<u>7,684,763</u>	<u>227,720,715</u>
Less Accumulated Depreciation:				
Land Improvements	5,840,004	778,932	-	6,618,936
Buildings and Improvements	68,111,726	6,061,642	266,871	73,906,497
Furniture and Equipment	3,921,356	365,038	56,400	4,229,994
Total Accumulated Depreciation	<u>77,873,086</u>	<u>7,205,612</u>	<u>323,271</u>	<u>84,755,427</u>
Governmental Activities Capital Assets, Net	<u>\$ 131,839,388</u>	<u>\$ 18,487,392</u>	<u>\$ 7,361,492</u>	<u>\$ 142,965,288</u>

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

Governmental Activities	
Unallocated	<u>\$ 7,205,612</u>

LINCOLN UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 5 – INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances consisted of amounts as shown in the schedule below:

Due To	Due From		Total
	General Fund	Non-Major Governmental Funds	
General Fund	\$ -	\$ 593,867	\$ 593,867
Non-Major Governmental Funds	6,084,348	1,530,970	7,615,318
Self Insurance Fund	45,678	-	45,678
Total	<u>\$ 6,130,026</u>	<u>\$ 2,124,837</u>	<u>\$ 8,254,863</u>

Operating Transfers

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

Transfer To	Transfer From		Total
	General Fund	Non-Major Governmental Funds	
General Fund	\$ -	\$ -	\$ -
Non-Major Governmental Funds	1,299,607	-	1,299,607
Self Insurance Fund	622,418	-	622,418
	<u>\$ 1,922,025</u>	<u>\$ -</u>	<u>\$ 1,922,025</u>

The General Fund transferred to the Cafeteria Fund for negative balances.	\$ 4,395
The General Fund transferred to the Deferred Maintenance Fund for district match and repairs.	1,295,212
The General Fund transferred to Self-Insurance fund for insurance premiums.	622,418
	<u>\$ 1,922,025</u>

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

LINCOLN UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 6 – ACCOUNTS PAYABLE

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

	General Fund	Debt Service Fund	Non-Major Governmental Funds	Total	Self Insurance Funds
Apportionment	\$ 404,991	\$ -	\$ -	\$ 404,991	\$ -
Salaries and benefits	2,632,959	-	202,951	2,835,910	2,821
Construction	334,856	-	156,779	491,635	-
Other Liabilities	3,203,392	-	1,084,212	4,287,604	1,210
Total	<u>\$ 6,576,198</u>	<u>\$ -</u>	<u>\$ 1,443,942</u>	<u>\$ 8,020,140</u>	<u>\$ 4,031</u>

NOTE 7 – UNEARNED REVENUE

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

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
Federal financial assistance	\$ -	\$ 13,666	\$ 13,666
State categorical aid	764,302	40,909	805,211
Total	<u>\$ 764,302</u>	<u>\$ 54,575</u>	<u>\$ 818,877</u>

LINCOLN UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 8 – LONG-TERM OBLIGATIONS

Summary

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

	Balance July 1, 2016	Additions and Adjustments	Deductions	Balance June 30, 2017	Due in One Year
General obligation bonds	\$ 83,940,417	\$ -	\$ 2,824,881	\$ 81,115,536	\$ 2,462,873
Bond premium net of amortization	4,084,407	1,636,478	265,000	5,455,885	309,296
Accreted interest on bonds	11,880,446	1,651,205	110,120	13,421,531	127,127
Community facilities bonds	25,066,568	16,615,000	14,105,000	27,576,568	1,630,000
Certificates of participation	2,180,000	3,680,000	2,180,000	3,680,000	325,000
Qualified zone academy bond	1,259,215	-	169,379	1,089,836	172,767
Technical education loans	1,334,745	-	315,365	1,019,380	327,276
Net OPEB obligation	4,228,267	687,515	592,556	4,323,226	687,515
Compensated absences	262,852	-	7,223	255,629	255,629
Net pensions liabilities	70,333,663	10,738,912	-	81,072,575	
	<u>\$ 204,570,580</u>	<u>\$ 35,009,110</u>	<u>\$ 20,569,524</u>	<u>\$ 219,010,166</u>	<u>\$ 6,297,483</u>

Payments on the general obligation bonds are made by the bond interest and redemption fund from local property tax revenues. Payments on the certificates of participation are made by the capital facilities fund. The compensated absences are paid for by the funds for which the employees worked.

General obligation bond

The outstanding general obligation bonded debt is as follows:

On February 16, 2005, the District issued General Obligation Bonds totaling \$29,999,379. These serial bonds with interest rates from 3.00% to 6.75% were scheduled to mature in varying amounts through August 2030. With the issuance of the 2013 Refunding Bonds, \$22,615,000 of the 2005 bonds outstanding at June 30, 2013 was considered defeased.

<u>Year End June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ -	\$ -	\$ -
2025-2029	675,343	2,319,657	2,995,000
2030-2031	1,294,036	5,045,962	6,339,998
	<u>\$ 1,969,379</u>	<u>\$ 7,365,619</u>	<u>\$ 9,334,998</u>
Amount Paid during FY 2017		<u>\$ -</u>	

LINCOLN UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

On October 25, 2006, the District issued General Obligation Bonds totaling \$12,863,292. These serial bonds with interest rates from 4.00% to 6.82% mature in varying amounts through August 2031.

Year End June 30,	Principal	Interest	Total
2018	\$ 535,000	\$ 261,400	\$ 796,400
2019	590,000	240,000	830,000
2020	660,000	213,450	873,450
2021	725,000	187,050	912,050
2022	800,000	157,144	957,144
2023-2027	3,851,756	1,655,500	5,507,256
2028-2032	3,926,536	9,833,464	13,760,000
	<u>\$ 11,088,292</u>	<u>\$ 12,548,008</u>	<u>\$ 23,636,300</u>

Amount Paid during FY 2017

\$ 480,000

On August 17, 2007, the District issued General Obligation Bonds totaling \$4,507,885. These serial bonds with interest rates from 3.95% to 5.72% mature in varying amounts through August 2032.

Year End June 30,	Principal	Interest	Total
2018	\$ 106,087	\$ 96,713	\$ 202,800
2019	112,560	110,240	222,800
2020	112,318	120,482	232,800
2021	117,644	135,156	252,800
2022	117,025	145,775	262,800
2023-2027	631,683	982,317	1,614,000
2038-2032	682,148	1,501,852	2,184,000
2033	2,027,946	3,694,854	5,722,800
	<u>\$ 3,907,411</u>	<u>\$ 6,787,389</u>	<u>\$ 10,694,800</u>

Amount Paid during FY 2017

\$ 108,498

LINCOLN UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

On March 14, 2008, the District issued General Obligation Bonds totaling \$2,625,860. These serial bonds mature in varying amounts through February 2033 with interest rates from 5.75% to 6.30%. With this issuance, all Measure P General Obligation Bond funds authorized have been issued.

Year End June 30,	Principal	Interest	Total
2018	\$ 86,786	\$ 68,214	\$ 155,000
2019	84,198	75,802	160,000
2020	84,080	85,920	170,000
2021	81,347	93,653	175,000
2022	78,638	101,362	180,000
2023-2027	436,008	587,903	1,023,911
2028-2032	454,275	805,015	1,259,290
2033-2034	1,033,003	2,375,101	3,408,104
	<u>\$ 2,338,335</u>	<u>\$ 4,192,970</u>	<u>\$ 6,531,305</u>

Amount Paid during FY 2017

\$ 86,383

On February 1, 2012, the District issued General Obligation Bonds totaling \$9,297,123. These serial bonds with interest rates from 2.50% to 5.39% mature in varying amounts through August 2037.

Year End June 30,	Principal	Interest	Total
2018	\$ 125,000	\$ 239,569	\$ 364,569
2019	150,000	233,319	383,319
2020	180,000	229,569	409,569
2021	-	220,569	220,569
2022	40,000	220,569	260,569
2023-2027	600,357	1,062,238	1,662,595
2028-2032	1,139,779	1,220,829	2,360,608
2033-2037	2,756,989	1,190,173	3,947,162
2038	1,085,000	43,400	1,128,400
	<u>\$ 6,077,125</u>	<u>\$ 4,660,235</u>	<u>\$ 10,737,360</u>

Amount Paid during FY 2017

\$ 450,000

LINCOLN UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

<u>Year End June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 285,000	\$ 262,838	\$ 547,838
2019	285,000	255,593	540,593
2020	285,000	244,512	529,512
2021	290,000	233,431	523,431
2022	290,000	222,156	512,156
2023-2027	1,505,000	925,505	2,430,505
2028-2032	1,660,000	552,692	2,212,692
2033-2036	1,090,000	116,027	1,206,027
	<u>\$ 5,690,000</u>	<u>\$ 2,812,754</u>	<u>\$ 8,502,754</u>

Amount Paid during FY 2017

\$ 285,000

On April 1, 2014, the District issued General Obligation Bonds totaling \$14,000,000. These serial bonds with interest rates from 4.00% to 5.00% mature in varying amounts through August 2038.

<u>Year End June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 35,000	\$ 584,456	\$ 619,456
2019	45,000	583,056	628,056
2020	70,000	581,256	651,256
2021	190,000	578,456	768,456
2022	210,000	570,856	780,856
2023-2027	1,615,000	2,681,081	4,296,081
2028-2032	2,850,000	2,164,531	5,014,531
2033-2037	4,910,000	1,415,187	6,325,187
2038	3,375,000	221,750	3,596,750
	<u>\$ 13,300,000</u>	<u>\$ 9,380,629</u>	<u>\$ 22,680,629</u>

Amount Paid during FY 2017

\$ 385,000

LINCOLN UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

On February 1, 2013, the District issued \$21,445,000 of General Obligation Refunding Bonds to refund a portion, \$22,615,000, of the District's outstanding Election of 2004, Series 2005 bonds and to pay costs of issuing the Refunding Bonds. The bonds mature in varying amounts through August 2026 with interest rates from 2.0% to 5.0%.

Year End June 30,	Principal	Interest	Total
2018	\$ 1,150,000	\$ 728,350	\$ 1,878,350
2019	1,275,000	679,850	1,954,850
2020	1,410,000	626,150	2,036,150
2021	1,550,000	566,950	2,116,950
2022	1,705,000	501,850	2,206,850
2023-2027	11,195,000	1,219,275	12,414,275
	<u>\$ 18,285,000</u>	<u>\$ 4,322,425</u>	<u>\$ 22,607,425</u>
Amount Paid during FY 2017		<u>\$ 1,030,000</u>	

On July 21, 2015, the District issued \$18,460,000 of General Obligation Bonds to finance the acquisition and construction of school facilities project in the District. These Election Bonds of 2012 Series C has an interest rate from 2.00% to 5.00% and matures in varying amounts through August 2039.

Year End June 30,	Principal	Interest	Total
2018	\$ 140,000	\$ 796,875	\$ 936,875
2019	-	794,075	794,075
2020	-	794,075	794,075
2021	160,000	794,075	954,075
2022	200,000	789,275	989,275
2023-2027	1,765,000	3,767,625	5,532,625
2028-2032	3,420,000	3,214,050	6,634,050
2033-2037	5,240,000	2,256,250	7,496,250
2038-2040	7,535,000	735,800	8,270,800
	<u>\$ 18,460,000</u>	<u>\$ 13,942,100</u>	<u>\$ 32,402,100</u>
Amount Paid during FY 2017		<u>\$ -</u>	

LINCOLN UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

Community facilities bond

The outstanding Community Facilities bonded debt is as follows:

On August 16, 2006, the District issued \$14,750,000 in Special Tax Bonds with interest rates range from 4.00% to 5.00% and maturing in varying amounts through September 2021. During the 2017 fiscal year, the district issued 2017 CFD special refunding bond to fully refund the 2006 special tax bonds. Amount paid during the fiscal year 2017 was \$7,070,000 with a balance of zero as June 30, 2017.

On December 16, 2005, the District issued \$14,995,814 in Special Tax Bonds with interest rates ranging from 3.25% to 5.31%.

Year End June 30,	Principal	Interest	Total
2018	\$ -	\$ -	\$ -
2023-2027	1,404,963	2,455,037	3,860,000
2028-2032	2,886,902	6,773,098	9,660,000
2033-2037	2,168,950	7,491,050	9,660,000
	<u>\$ 6,460,815</u>	<u>\$ 16,719,185</u>	<u>\$ 23,180,000</u>

Amount Paid during FY 2017

\$ 6,895,000

On September 1, 2007, the District issued \$4,890,753 in Special Tax Bonds with interest rates ranging from 3.95% to 5.72%

Year End June 30,	Principal	Interest	Total
2018	\$ 140,000	\$ 191,175	\$ 331,175
2019	150,000	185,575	335,575
2020	155,000	179,575	334,575
2021	160,000	173,375	333,375
2022	170,000	166,815	336,815
2023-2027	960,000	721,025	1,681,025
2028-2032	1,170,000	493,970	1,663,970
2033-2037	1,450,000	205,355	1,655,355
2038	145,753	1,999,247	2,145,000
	<u>\$ 4,500,753</u>	<u>\$ 4,316,112</u>	<u>\$ 8,816,865</u>

Amount Paid during FY 2017

\$ 140,000

LINCOLN UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

On December 20, 2016, The District issued \$16,615,000 in Special Tax Refunding Bonds with interest rates ranging from 2.00% to 5.00%.

<u>Year End June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	1,490,000	448,576	\$ 1,938,576
2019	1,415,000	672,319	2,087,319
2020	1,460,000	629,869	2,089,869
2021	1,690,000	571,469	2,261,469
2022	1,775,000	486,968	2,261,968
2023-2027	6,325,000	1,149,058	7,474,058
2028-2032	1,255,000	411,240	1,666,240
2033-2036	1,205,000	122,400	1,327,400
	<u>\$ 16,615,000</u>	<u>\$ 4,491,899</u>	<u>\$ 21,106,899</u>

Amount Paid during FY 2017

\$ -

Qualified Zone Academy Bond

On December 19, 2007, the District issued Qualified Zone Academy Bonds, Series 2007 in the amount of \$2,500,000 with an interest rate of 2.0%. As of June 30, 2017, the principal balance outstanding was \$1,089,836.

The bonds mature through December 2022 as follows:

<u>Year End June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 172,767	\$ 21,797	\$ 194,564
2019	176,222	18,341	194,563
2020	179,747	14,817	194,564
2021	183,342	11,205	194,547
2022	187,009	7,485	194,494
2023	190,749	3,902	194,651
	<u>\$ 1,089,836</u>	<u>\$ 77,547</u>	<u>\$ 1,167,383</u>

Amount Paid during FY 2017

\$ 169,379

LINCOLN UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Certificate of Participation

On December 20, 2016, the District issued Certificates of Participation in the amount of 3,680,000 with interest rate ranging from 2.00% to 5.00%. The net proceeds of the Certificates will be used to prepay the District's lease payment obligations under a lease agreement dated as of April 1, 2005, fund certain capital facilities of the District and purchase a municipal bond insurance policy and a reserve fund insurance policy for the Certificates, as well as any costs incurred in connection with the execution and delivery of the Certificates.

Year End June 30,	Principal	Interest	Total
2018	\$ 325,000	\$ 106,119	\$ 431,119
2019	270,000	159,600	429,600
2020	275,000	151,500	426,500
2021	380,000	140,500	520,500
2022	400,000	121,500	521,500
2023-2027	2,030,000	288,250	2,318,250
	<u>\$ 3,680,000</u>	<u>\$ 967,469</u>	<u>\$ 4,647,469</u>

Amount Paid during FY 2017

	<u>\$ -</u>
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Career Technical Education Facilities Program

On October 27, 2009, the District took on a loan resulting from the Career Technical Education Facilities Program in the amount of \$3,000,000 with an interest rate of 3.777%. As of June 30, 2017, the principal balance outstanding was \$1,019,380.

The payments through July 2019 are as follows:

Year End June 30,	Principal	Interest	Total
2018	\$ 327,276	\$ 38,502	\$ 365,778
2019	339,638	26,141	365,778
2020	352,466	13,313	365,779
	<u>\$ 1,019,380</u>	<u>\$ 77,956</u>	<u>\$ 1,097,335</u>

Amount Paid during FY 2017

	<u>\$ 315,365</u>
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Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2017, amounted to \$255,629.

LINCOLN UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

Other Postemployment Benefits (OPEB) Obligation

The District implemented GASBS No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* during the year ended June 30, 2009. The District's annual OPEB Cost for the year ended June 30, 2017 was \$687,515 and the District made contributions of \$592,556 during the year, which resulted in an OPEB obligation of \$4,323,226. See Note 10 for additional information regarding the OPEB obligation and the postemployment benefit plan.

NOTE 9 – FUND BALANCES

Fund balances with reservations and designations are comprised of the following elements:

	General Fund	Debt Service Fund	Non-Major Governmental Funds	Total
Fund Balances				
Nonspendable:				
Revolving cash	\$ 15,000	\$ -	\$ -	\$ 15,000
Stores	190,180	-	93,704	283,884
Restricted for:				
Other fund activities	4,641,931	4,771,762	17,063,901	26,477,594
Committed to:				
Other commitments	-	-	-	-
Assigned to:				
2014 - 15 / 2015 - 16 One-time Funding	3,443,782	-	-	3,443,782
2016 - 17 One-time Funding	1,500,627	-	-	1,500,627
Extended Day Kindergarten	400,000	-	-	400,000
Other Assignments	-	-	2,670,507	2,670,507
Unassigned:				
Reserve for Economic Uncertainty	3,207,788	-	-	3,207,788
Unassigned/Unappropriated Amount	11,026,041	-	-	11,026,041
Total Fund Balance	<u>\$ 24,425,349</u>	<u>\$ 4,771,762</u>	<u>\$ 19,828,112</u>	<u>\$ 49,025,223</u>

NOTE 10 – POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION

Plan Description

The Postemployment Benefit Plan (the "Plan") is a single-employer defined benefit healthcare plan administered by the Lincoln Unified School District. The Plan provides medical, dental and vision insurance benefits to eligible retirees. Membership of the Plan consists of 15 retirees and beneficiaries currently receiving benefits and 36 active plan members. The unfunded portion of annual required contributions (net OPEB obligation) is presented in the statement of net assets as a portion of long-term obligations.

LINCOLN UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

	Management	Certificated	Classified	Confidential Supervisory
	Medical, dental and vision	Medical, dental and vision	Medical, dental and vision	Medical, dental and vision
Benefit Types Provided				
Duration of Benefits	To Age 65	To Age 65	To Age 65	To Age 65
Required Service	10 Years	10 Years	20 Years	10 Years
Minimum Age	55	55	55	55
Dependent Coverage	Yes	Yes	Yes	Yes
District Contribution %	100%	100%	100%	100%
District Cap	\$811 per month	\$717 per month	\$811 per month	\$811 per month

Contribution Information

The contribution requirements of plan members and the District are established and may be amended by the District, the District's bargaining units and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually through agreements between the District, the District's bargaining units and unrepresented groups. The District made contributions of \$592,556 and \$495,660 during 2017 and 2016, respectively. The required contribution is based on projected pay-as-you-go financing requirements.

Annual OPEB Cost and Net OPEB Obligation

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

Annual required contribution	\$ 686,419
Interest on net OPEB obligation	169,131
Adjustment to annual required contribution	(168,035)
Annual OPEB cost (expense)	<u>687,515</u>
Contributions made	<u>(592,556)</u>
Increase in net OPEB obligation	94,959
Net OPEB obligation, beginning of year	<u>4,228,267</u>
Net OPEB obligation, end of year	<u><u>\$ 4,323,226</u></u>

LINCOLN UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

The annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan and the net OPEB obligation for 2016 was as follows:

<u>Year Ended June 30</u>	<u>Annual OPEB Cost</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation</u>
2015	\$ 724,719	59%	\$ 4,004,524
2016	\$ 719,403	69%	\$ 4,228,267
2017	\$ 687,515	86%	\$ 4,323,226

Funded Status and Funding Progress

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

Actuarial Methods and Assumptions

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

In the July 30, 2015, actuarial valuation, the Projected Unit Credit cost method was used. The actuarial assumptions included a 4 percent investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 8 percent initially, reduced by decrements to an ultimate rate of 5 percent after three years. Both rates included a 3 percent inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level dollar amount on an open basis. The remaining amortization period at June 30, 2017, was 28 years.

LINCOLN UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

NOTE 11 – RISK MANAGEMENT

Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the fiscal year ending June 30, 2017, the District contracted for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

Workers' Compensation

For the fiscal year 2017, the District participated in the San Joaquin County Schools Workers' Compensation Insurance Group, an insurance purchasing pool. The intent of the San Joaquin County Schools Workers' Compensation Insurance Group is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the San Joaquin County Schools Workers' Compensation Insurance Group. 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 San Joaquin County Schools Workers' Compensation Insurance Group. Each participant pays its workers' compensation premium based on its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage. A participant will then either receive money from or be required to contribute to the "equity-pooling fund". This "equity-pooling" arrangement ensures that each participant shares equally in the overall performance of the San Joaquin County Schools Workers' Compensation Insurance Group. Participation in the San Joaquin County Schools Workers' Compensation Insurance Group is limited to districts that can meet the San Joaquin County Schools Workers' Compensation Insurance Group selection criteria.

<u>Insurance Program/Company Name</u>	<u>Type of Coverage</u>	<u>Limits</u>
San Joaquin County W/C JPA (PIPS)	Workers' Compensation	\$1,000,000
Norcal ReLief	General Liability	\$5,000,000 with \$50,000 retention
	Automobile	\$5,000,000 with \$50,000 retention
	Property	\$250,250,000 with \$25,000 retention
	Student Professional Liability	Included with \$50,000 retention

LINCOLN UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

Employee Medical Benefits

The District has contracted with the Self Insured Schools of California to provide employee medical and surgical benefits for all employees. The entity is a shared risk pool comprised of school districts throughout the state. Rates are set through an annual calculation process. The District pays a monthly contribution to the entity, which is placed in a common fund from which claim payments are made for all participating Districts. Claims are paid for all participants regardless of claims flow. The Board of Directors has a right to return monies to a district subsequent to the settlement of all expenses and claims if a district withdraws from the pool.

NOTE 12 – EMPLOYEE RETIREMENT SYSTEMS

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

The District implemented GASB Statement No. 68 and No. 71 for the fiscal year ended June 30, 2017. As a result, the District reported its proportionate share of the net pension liabilities, pension expense and deferred inflow of resources for each of the above plans and a deferred outflow of resources for each of the above plans as follows:

<u>Pension Plan</u>	<u>Proportionate Share of Net Pension Liability</u>	<u>Deferred Outflow of Resources</u>	<u>Proportionate Share of Deferred Inflow of Resources</u>	<u>Proportionate Share Pension Expense</u>
CalSTRS	\$ 59,697,245	\$ 16,656,974	\$ 6,343,113	\$ 6,352,688
CalPERS	21,375,330	6,958,993	676,001	3,050,580
Total	<u>\$ 81,072,575</u>	<u>\$ 23,615,967</u>	<u>\$ 7,019,114</u>	<u>\$ 9,403,268</u>

California State Teachers' Retirement System (CalSTRS)

Plan Description

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

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2015, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publically available reports that can be found on the CalSTRS website under Publications at:
<http://www.calstrs.com/member-publications>.

LINCOLN UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Benefits Provided

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

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

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

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

	STRP Defined Benefit Program	
	On or before December 31, 2012	On or after January 1, 2013
Hire date		
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	10.25%	9.205%
Required employer contribution rate	12.58%	10.58%
Required state contribution rate	8.578248%	8.578248%

Contributions

Required member, District and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven year period. The contribution rates for each plan for the year ended June 30, 2017, are presented above and the District's total contributions were \$4,927,203.

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

At June 30, 2017, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related state support and the total portion of the net pension liability that was associated with the District were as follows:

LINCOLN UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Total net pension liability, including State share:

District's proportionate share of net pension liability	\$ 59,697,245
State's proportionate share of the net pension liability associated with the District	33,984,577
	<u>\$ 93,681,822</u>

The net pension liability was measured as of June 30, 2016. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. The District's proportionate share for measurement period June 30, 2016 and June 30, 2015, respectively, was 0.0738 percent and 0.0820 percent, resulting in a net decrease in the proportionate share of 0.0082 percent.

For the year ended June 30, 2017, the District recognized pension expense of \$6,352,688. In addition, the District recognized pension expense and revenue of \$3,054,391 for support provided by the State. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between projected and actual earnings on plan investments	\$ 4,745,901	\$ -
Differences between expected and actual experiences	-	1,456,246
Changes in proportion and differences between District contributions and proportionate share contributions	6,983,870	4,886,867
Pension contributions subsequent to measurement date	4,927,203	-
Total	<u>\$ 16,656,974</u>	<u>\$ 6,343,113</u>

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

Year Ended June 30,	Deferred Outflows (Inflows) of Resources
2018	\$ 103,332
2019	103,332
2020	2,757,494
2021	1,781,743
Total	<u>\$ 4,745,901</u>

The deferred outflows/(inflows) of resources relate to the net change in proportionate share of net pension liability and the differences between expected and actual experience in the measurement of the total pension liability will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided

LINCOLN UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the 2015-2016 measurement period is 7 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows (Inflows) of Resources
2018	\$ 316,584
2019	316,584
2020	316,584
2021	316,584
2022	316,584
2021	(942,163)
Total	<u>\$ 640,757</u>

Actuarial Methods and Assumptions

Total pension liability for STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2015, and rolling forward the total pension liability to June 30, 2016. The financial reporting actuarial valuation as of June 30, 2015, used the following methods and assumptions, applied to all prior periods included in the measurement:

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

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant. Based on the model for CalSTRS consulting actuary' investment practice, a best estimate range was determined by assuming the portfolio is re-balanced annually and that the annual returns are lognormally distributed and independently from year to year to develop expected percentile for the long-term distribution of annualized returns. The assumed asset allocation is based on board policy for target asset allocation in effect on February 2, 2012, the date the current experience study was approved by the board. Best estimates of 10-year geometric real rates of return and the assumed asset allocation for each major asset class used as input to develop the actuarial investment rate of return are summarized in the following table:

LINCOLN UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Global equity	47%	4.50%
Fixed income	12%	0.30%
Real estate	13%	5.20%
Private equity	13%	9.30%
Absolute Return	9%	2.90%
Inflation sensitive	4%	3.80%
Cash/liquidity	2%	-1.00%

Discount Rate

The discount rate used to measure the total pension liability was 7.60 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.60 percent) and assuming that contributions, benefit payments and administrative expense occurred midyear. Based on these assumptions, the STRP's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

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

<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% decrease (6.60%)	\$ 85,917,799
Current discount rate (7.60%)	\$ 59,697,245
1% increase (8.60%)	\$ 37,919,977

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

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Benefits Provided

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

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

	School Employer Pool (CalPERS)	
	On or before December 31, 2012	On or after January 1, 2013
Hire date		
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%	2.0% - 2.4%
Required employee contribution rate	7.000%	6.000%
Required employer contribution rate	13.888%	13.888%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2017, are presented above and the total District contributions were \$1,894,650.

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

As of June 30, 2017, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$21,375,330. The net pension liability was measured as of June 30, 2016. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for measurement period June 30, 2016 and June 30, 2015, respectively, was 0.1082 percent and 0.1039 percent, resulting in a net decrease in the proportionate share of 0.0043 percent.

LINCOLN UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

For the year ended June 30, 2017, the District recognized pension expense of \$3,050,580. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between projected and actual earnings on plan investments	\$ 3,316,764	\$ -
Differences between expected and actual experience	919,344	-
Change in assumption	-	676,001
Changes in proportion and differences between District contributions and proportionate share contributions	828,235	-
Pension contributions subsequent to measurement date	1,894,650	-
Total	<u>\$ 6,958,993</u>	<u>\$ 676,001</u>

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

Year Ended June 30,	Deferred Outflows (Inflows) of Resources
2017	\$ 465,220
2018	465,220
2019	1,520,677
2020	865,646
Total	<u>\$ 3,316,763</u>

The deferred outflows/(inflows) of resources relate to the net change in proportionate share of net pension liability and the differences between expected and actual experience in the measurement of the total pension liability will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the 2014-2015 measurement period is 3.9 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows (Inflows) of Resources
2017	\$ 425,199
2018	378,628
2019	267,751
Total	<u>\$ 1,071,578</u>

LINCOLN UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

Actuarial Methods and Assumptions

Total pension liability for the SEP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2015, and rolling forward the total pension liability to June 30, 2016. The financial reporting actuarial valuation as of June 30, 2015, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2015
Measurement date	June 30, 2016
Experience study	July 1, 1997 through June 30, 2011
Actuarial cost method	Entry age normal
Discount rate	7.65%
Investment rate of return	7.50%
Consumer price inflation	2.75%
Wage growth	3.00%

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

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

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Global equity	51%	5.71%
Global fixed income	20%	2.43%
Private equity	10%	6.95%
Real estate	10%	5.13%
Inflation sensitive	6%	3.36%
Infrastructure and Forestland	2%	5.09%
Liquidity	1%	-1.05%

Discount Rate

The discount rate used to measure the total pension liability was 7.65 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Based on these assumptions, the School Employer Pool fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the

LINCOLN UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

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

<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% decrease (6.65%)	\$ 31,892,113
Current discount rate (7.65%)	\$ 21,375,330
1% increase (8.65%)	\$ 12,618,040

Social Security

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) must be covered by social security or an alternative plan. The District has elected to use social security. Contributions made by the District and an employee vest immediately. The District contributes 6.2% of an employee's gross earnings and employees are required to contribute an additional 6.2% of gross earnings.

On-Behalf Payments

The District was the recipient of on-behalf payments made by the State of California to CalSTRS for K-12 education. These payments consist of state general fund contributions of approximately \$3,054,391 to CalSTRS (8.578248% of 2014-15 creditable compensation subject to CalSTRS).

NOTE 13 – COMMITMENTS AND CONTINGENCIES

Grants

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2017.

Litigation

The District is involved in various legal litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2017.

LINCOLN UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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

The District is a member of the San Joaquin County School Workers' Compensation Insurance Group, San Joaquin County Schools Property and Liability Insurance Group public entity risk pools, the San Joaquin County Schools Data Processing Center Joint Power Authorities (JPA) Northern California Regional Liability Excess Fund, Schools Excess Liability Fund, and Central Valley Schools Health and Welfare Trust. The relationships between the District, the pools, and the JPA's are such that they are not component units of the District for financial reporting purposes.

Financial information for CVSHWT was not available. The following is a summary of financial information for the other JPA's as June 30, 2016 (the latest information available):

	SJCSWC JPA	SJCSPL JPA	NCRLF	SJCSDPC	SELF
Total assets	\$ 14,055,535	\$ 1,060,670	\$ 66,435,645	\$ 2,343,107	\$ 154,727,000
Total liabilities	\$ 2,253,903	\$ 232,343	\$ 59,236,261	\$ 21,974	\$ 122,637,000
Net position	\$ 11,801,632	\$ 828,327	\$ 7,199,384	\$ 2,321,133	\$ 32,090,000
Total revenues	\$ 8,193,754	\$ 1,809,946	\$ 46,705,077	\$ 3,098,671	\$ 11,969,000
Total expenses	\$ 7,674,040	\$ 1,644,465	\$ 45,698,270	\$ 2,687,508	\$ 23,063,000
Change in net position	\$ 519,714	\$ 165,481	\$ 1,006,807	\$ 411,163	\$ (11,094,000)

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

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II - Required Supplementary Information

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LINCOLN UNIFIED SCHOOL DISTRICT

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

	Budgeted Amounts		Actual (GAAP Basis)	Variances -
	(GAAP Basis)			Positive
	Original	Final		(Negative)
				Final to
				Actual
REVENUES				
LCFF sources	\$ 77,961,863	\$ 77,702,172	\$ 77,702,172	\$ -
Federal sources	4,456,735	4,721,059	4,721,058	(1)
Other State sources	7,333,888	9,125,774	9,125,774	-
Other local sources	1,451,138	4,050,672	4,050,672	-
Total Revenues	91,203,624	95,599,677	95,599,676	(1)
EXPENDITURES				
Current				
Certificated salaries	43,334,112	41,277,896	41,277,897	(1)
Classified salaries	11,928,142	12,636,872	12,636,871	1
Employee benefits	18,179,946	18,387,733	18,387,733	-
Books and supplies	4,861,736	6,462,222	6,462,222	-
Services and operating expenditures	7,442,541	8,585,525	8,585,524	1
Other outgo	1,186,185	1,343,600	1,343,601	(1)
Capital outgo	1,380,000	2,074,389	2,074,389	-
Debt services - principal	-	-	-	-
Debt services - interest	-	-	-	-
Total Expenditures	88,312,662	90,768,237	90,768,237	-
Excess (Deficiency) of Revenues				
Over Expenditures	2,890,962	4,831,440	4,831,439	(1)
Other Financing Sources (Uses)				
Transfers in	-	-	-	-
Transfers out	(1,017,630)	(1,922,025)	(1,922,025)	-
Net Financing Sources (Uses)	(1,017,630)	(1,922,025)	(1,922,025)	-
NET CHANGE IN FUND BALANCES	1,873,332	2,909,415	2,909,414	(1)
Fund Balance - Beginning	21,515,935	21,515,935	21,515,935	-
Fund Balance - Ending	\$ 23,389,267	\$ 24,425,350	\$ 24,425,349	\$ (1)

See accompanying note to required supplementary information

LINCOLN UNIFIED SCHOOL DISTRICT

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

Schedule of Funding Progress						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Accrued Liability (AAL) - Level Percent of Payroll (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a / b)	Estimated Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
December 1, 2012	\$ -	\$ 6,916,573	\$ 6,916,573	0%	\$ 39,100,000	18%
July 1, 2014	\$ -	\$ 6,878,551	\$ 6,878,551	0%	\$ 47,000,000	15%
July 1, 2016	\$ -	\$ 7,833,560	\$ 7,833,560	0%	\$ 50,400,000	16%

See accompanying note to required supplementary information

LINCOLN UNIFIED SCHOOL DISTRICT

**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
AS OF JUNE 30, 2017**

CalSTRS	Measurement Date		
	2016	2015	2014
Proportion of the net pension liability	0.0738%	0.0820%	0.0680%
District's proportionate share of the net pension liability	\$59,697,245	\$55,018,091	\$39,602,988
State's proportionate share of the net pension liability associated with the District	33,984,577	29,098,505	23,920,205
Total	<u>\$93,681,822</u>	<u>\$84,116,596</u>	<u>\$63,523,193</u>
District's Covered employee payroll	<u>\$38,121,156</u>	<u>\$35,506,404</u>	<u>\$31,946,618</u>
District's proportionate share of the net pension liability as a percentage of its covered employee payroll	<u>157%</u>	<u>155%</u>	<u>124%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>77%</u>	<u>77%</u>	<u>77%</u>
CalPERS			
Proportion of the net pension liability	<u>0.1082%</u>	<u>0.1039%</u>	<u>0.1001%</u>
District's proportionate share of the net pension liability	<u>\$21,375,330</u>	<u>\$15,315,572</u>	<u>\$11,363,787</u>
District's covered employee payroll	<u>\$12,961,213</u>	<u>\$11,626,661</u>	<u>\$10,390,928</u>
District's proportionate share of the net pension liability as a percentage of its covered employee payroll	<u>165%</u>	<u>132%</u>	<u>109%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>83%</u>	<u>83%</u>	<u>83%</u>

Notes to Schedule:

Change of benefit terms – For the measurement date ended June 30, 2016, 2015, and 2014, there were no changes to the benefit terms.

Changes in assumptions – (CalPERS) for measurement date ended June 30, 2015, the discount rate changed from 7.50% (net of administrative expenses in 2014) to 7.65% to correct an adjustment which previously reduced the discount rate for administrative expenses. For the measurement date ended June 30, 2016 and 2014, there were no changes in assumptions.

Note: Fiscal year 2015 was the first year of implementation, therefore only three years are shown. As data becomes available, ten years of information will be presented.

See accompanying note to required supplementary information

LINCOLN UNIFIED SCHOOL DISTRICT

**SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS FOR PENSIONS
AS OF JUNE 30, 2017**

CalSTRS	2017	2016	2015
Contractually required contribution (actuarially determined) contribution	\$ 4,927,203	\$ 4,083,781	\$ 3,152,807
	<u>4,927,203</u>	<u>4,083,781</u>	<u>3,152,807</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$39,169,193	\$38,121,156	\$35,506,404
Contribution as a percentage of covered-employee payroll	12.58%	10.71%	8.88%
CalPERS			
Contractually required contribution (actuarially determined) contribution	\$ 1,894,650	\$ 1,530,519	\$ 1,363,877
	<u>1,894,650</u>	<u>1,530,519</u>	<u>1,363,877</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 13,642,456	\$ 12,961,213	\$ 11,626,661
Contribution as a percentage of covered-employee payroll	13.89%	11.81%	11.73%

Note: Fiscal year 2015 was the first year of implementation, therefore only three years are shown. As data becomes available, ten years of information will be presented.

LINCOLN UNIFIED SCHOOL DISTRICT

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

NOTE 1 – PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

This schedule is required by GASB Statement No. 34 as required supplementary information (RSI) for the General Fund and for each major special revenue fund that has a legally adopted annual budget. The budgetary comparison schedule presents both (a) the original and (b) the final appropriated budgets for the reporting period as well as (c) actual inflows, outflows, and balances, stated on the District's budgetary basis. A separate column to report the variance between the final budget and actual amounts is also presented, although not required.

Schedule of Funding Progress

This schedule is required by GASB Statement No. 45 for all sole and agent employers that provide other postemployment benefits (OPEB). The schedule presents, for the most recent actuarial valuation and the two preceding valuations, information about the funding progress of the plan, including, for each valuation, the actuarial valuation date, the actuarial value of assets, the actuarial accrued liability, the total unfunded actuarial liability (or funding excess), the actuarial value of assets as a percentage of the actuarial accrued liability (funded ratio), the annual covered payroll, and the ratio of the total unfunded actuarial liability (or funding excess) to annual covered payroll.

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

This 10-year schedule is required by GASB Statement No. 68 for each cost-sharing pension plan. Until a full 10-year trend is compiled, the schedule will only show those years under which GASB Statement No. 68 was applicable. The schedule presents the District's proportion (percentage) of the collective net pension liability, the District's proportionate share (amount) of the collective net pension liability, the District's covered-employee payroll, and the pension plan's fiduciary net position as a percentage of the total pension liability.

Schedule of District's Contributions

This 10-year schedule is required by GASB Statement No. 68 for each cost-sharing pension plan. Until a full 10-year trend is compiled, the schedule will only show those years under which GASB Statement No. 68 was applicable. The schedule presents the District's statutorily or contractually required employer contribution, the amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution, the difference between the statutorily or contractually required employer contribution and the amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution, the District's covered-employee payroll, and the amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution as a percentage of the District's covered-employee payroll.

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III - Supplementary Information

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LINCOLN UNIFIED SCHOOL DISTRICT

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

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education:			
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329	\$ 1,769,251
Title I Advance Placement Reimbursement Program	84.330	14831	9,082
Title II, Part A, Improving Teacher Quality Local Grants	84.367	14341	394,384
Title II, Part B, California Mathematics and Science Partnerships	84.366	14512	485,252
Title III, Limited English Proficient Student Program	84.365	14346	143,294
Title III Immigrant Education Program	84.365	14346	9,615
ARRA Quality Improvement Activities	84.412	15181	3,075
Vocational Programs, Secondary I C	84.048	14894	<u>52,436</u>
Individuals with Disabilities Education Act (IDEA) Cluster			
IDEA, Basic Local Assistance Entitlement, Part B	84.027	13379	1,343,699
IDEA, Preschool Grants, Part B	84.173	13430	31,779
IDEA, Preschool Basic Local Assistance Part B, Sec 611, Private School ISP's	84.027	10115	11,037
IDEA, Preschool Local Entitlement, Part B	84.027A	13682	<u>148,135</u>
Subtotal Individuals with Disabilities Education Act (IDEA) Cluster			<u>1,534,650</u>
Total U.S. Department of Education			<u>4,401,039</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed through California Department of Education:			
Fair Value of Commodities	10.555	13391	213,854
Child Nutrition Cluster			
National School Lunch	10.555	13391	2,965,318
National School Lunch Summer Program	10.559	13004	95,912
Subtotal Child Nutrition Cluster			<u>3,061,230</u>
Total U.S. Department of Agriculture			<u>3,275,084</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through California Department Health Services:			
Medical Billing Option	93.778	10113	54,601
Total U.S. Department of Health and Human Services			<u>54,601</u>
Total Expenditures of Federal Awards			<u>\$ 7,730,724</u>

See accompanying note to supplementary information.

LINCOLN UNIFIED SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE FOR THE YEAR ENDED JUNE 30, 2017

ORGANIZATION

The Lincoln Unified School District was established May 23, 1865 and consists of an area comprising approximately 7.2 square miles. The District operates eight elementary, one middle school, one high school and two continuation schools. There were no boundary changes during the year.

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Donald Ruhstaller	President	2018
Tony Yadon	Vice President	2018
Norrie Palmer	Clerk	2020
Kathleen Solari	Member	2020
Jenny Van De Pol	Member	2018

ADMINISTRATION

Tom Uslan	Superintendent
Rebecca Hall	Associate Superintendent, Business Services
Kelly Dextraze	Associate Superintendent, Education Services
Michele Tatum	Associate Superintendent, Human Resources

LINCOLN UNIFIED SCHOOL DISTRICT

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

	Second Period Report	Annual Report
ELEMENTARY		
Transitional kindergarten/kindergarten through third	2,281.10	2,282.28
Fourth through sixth	1,984.70	1,982.35
Seventh and eight	1,440.79	1,436.86
Extended year special education	8.71	8.71
Non-public special education	4.68	4.49
Total Elementary	5,719.98	5,714.69
SECONDARY		
Ninth through twelfth	2,959.86	2,944.04
Extended year special education	5.67	5.67
Non-public special education	8.09	8.18
Total Secondary	2,973.62	2,957.89
Total Transitional kindergarten - twelfth	8,693.60	8,672.58
CHARTER-Classroom Based		
Transitional kindergarten/kindergarten through third	186.67	186.46
Fourth through five	124.21	124.01
Total Elementary	310.88	310.47

See accompanying note to supplementary information.

LINCOLN UNIFIED SCHOOL DISTRICT

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

<u>Grade Level</u>	1986-87	2016-2017	<u>Number of Days</u>		<u>Status</u>
	<u>Minutes Requirement</u>	<u>Actual Minutes</u>	<u>Traditional Calendar</u>	<u>Multitrack Calendar</u>	
Kindergarten	36,000	36,000	180	N/A	In Compliance
Grade 1	50,400	53,840	180	N/A	In Compliance
Grade 2	50,400	53,840	180	N/A	In Compliance
Grade 3	50,400	53,840	180	N/A	In Compliance
Grade 4	54,000	54,148	180	N/A	In Compliance
Grade 5	54,000	54,148	180	N/A	In Compliance
Grade 6	54,000	54,148	180	N/A	In Compliance
Grade 7	54,000	57,078	180	N/A	In Compliance
Grade 8	54,000	57,078	180	N/A	In Compliance
Grade 9	64,800	67,037	180	N/A	In Compliance
Grade 10	64,800	67,037	180	N/A	In Compliance
Grade 11	64,800	67,037	180	N/A	In Compliance
Grade 12	64,800	67,037	180	N/A	In Compliance

John McCandless Charter School

<u>Grade Level</u>	<u>Minutes Requirement</u>	2016-2017	<u>Number of Days</u>		<u>Status</u>
		<u>Actual Minutes</u>	<u>Traditional Calendar</u>	<u>Multitrack Calendar</u>	
Kindergarten	36,000	43,200	180	N/A	In Compliance
Grade 1	50,400	66,015	180	N/A	In Compliance
Grade 2	50,400	66,015	180	N/A	In Compliance
Grade 3	50,400	66,015	180	N/A	In Compliance
Grade 4	54,000	66,015	180	N/A	In Compliance
Grade 5	54,000	66,015	180	N/A	In Compliance

See accompanying note to supplementary information.

LINCOLN UNIFIED SCHOOL DISTRICT

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

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

FORM ASSET

Balance, June 30, 2017, Unaudited Actuals	\$ 131,839,386
Increase in:	
Land	3,180,594
Work in Progress	10,708,623
Land Improvements	831,870
Buildings and improvements	2,935,554
Furniture and equipment	351,600
Accumulated depreciation	(6,882,339)
Balance, June 30, 2017, Audited Financial Statement	<u>\$ 142,965,288</u>

FORM DEBT

Total Liabilities, June 30, 2017, Unaudited Actuals	\$ 122,594,892
Increase in:	
Bond premium net of amortization	5,455,885
Net Pension Liability	81,072,575
Other long term debt	1,089,836
Accreted interest	13,421,531
Decrease in:	
Certificates of Participation	(1,089,835)
Net OPEB obligation	(67,322)
General obligation bonds	(3,467,398)
Total Liabilities, June 30, 2017, Audited Financial Statements	<u>\$ 219,010,164</u>

LINCOLN UNIFIED SCHOOL DISTRICT

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

	(Budget) 2018 ¹	2017	2016	2015
GENERAL FUND				
Revenues	\$ 92,473,525	\$ 95,599,676	\$ 93,303,756	\$ 77,421,207
Other sources and transfers in	-	-	-	-
Total Revenues	<u>92,473,525</u>	<u>95,599,676</u>	<u>93,303,756</u>	<u>77,421,207</u>
Expenditures	91,549,944	90,768,237	88,182,795	78,100,673
Other uses and transfers out	1,022,630	1,922,025	1,917,630	1,520,212
Total Expenditures and Other Uses	<u>92,572,574</u>	<u>92,690,262</u>	<u>90,100,425</u>	<u>79,620,885</u>
INCREASE (DECREASE) IN FUND BALANCE	<u>\$ (99,049)</u>	<u>\$ 2,909,414</u>	<u>\$ 3,203,331</u>	<u>\$ (2,199,678)</u>
ENDING FUND BALANCE	<u>\$ 24,326,300</u>	<u>\$ 24,425,349</u>	<u>\$ 21,515,935</u>	<u>\$ 18,312,604</u>
AVAILABLE RESERVES ²	<u>\$ 14,294,709</u>	<u>\$ 14,233,829</u>	<u>\$ 13,605,320</u>	<u>\$ 15,247,972</u>
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO	<u>15.44%</u>	<u>15.36%</u>	<u>15.10%</u>	<u>19.15%</u>
LONG-TERM OBLIGATIONS	<u>\$212,712,683</u>	<u>\$219,010,166</u>	<u>\$219,010,166</u>	<u>\$168,747,085</u>
K-12 AVERAGE DAILY				
District ADA at P-2	8,693	8,694	8,737	8,836
Charter ADA at P-2	354	311	180	-
ATTENDANCE AT P-2	<u>9,047</u>	<u>9,005</u>	<u>8,917</u>	<u>8,836</u>

The General Fund balance has increased by \$6,112,745 over the past two years. The fiscal year 2017-2018 budget projects a budget decrease of \$99,049. For a district this size, the State recommends available reserves of at least three percent of total General Fund expenditures, transfers out, and other uses (total outgo).

Total long-term obligations have increased by \$50,263,081 over the past two years.

Average daily attendance has increased by 169 over the past two years. An increase of 42 ADA is anticipated during fiscal year 2017-2018.

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

² Available reserves consist of all undesignated fund balances and all funds designated for economic uncertainty contained within the General Fund.

LINCOLN UNIFIED SCHOOL DISTRICT

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

<u>Name of Charter School</u>	<u>Included in Audit Report</u>
John McCandless Charter School	Yes

See accompanying note to supplementary information.

LINCOLN UNIFIED SCHOOL DISTRICT

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

	Charter Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Building Fund
ASSETS					
Deposits and investments	\$ 540,937	\$ 564,238	\$ 502,128	\$ 1,279,912	\$ 3,629,367
Receivables	44,301	312,402	487,551	3,720	13,599
Due from other funds	458,175	51,385	4,395	944,388	1,703,090
Prepaid expenses	-	-	-	-	-
Stores inventories	-	-	93,704	-	-
Total Assets	1,043,413	928,025	1,087,778	2,228,020	5,346,056
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	71,286	99,500	91,552	156,779	1,022,357
Due to other funds	320,093	90,502	183,244	-	-
Unearned Revenue	-	54,575	-	-	-
Total Liabilities	391,379	244,577	274,796	156,779	1,022,357
Fund Balances:					
Nonspendable	-	-	93,704	-	-
Restricted	52,768	683,448	719,278	-	4,323,699
Committed	-	-	-	-	-
Assigned	599,266	-	-	2,071,241	-
Total Fund Balance	652,034	683,448	812,982	2,071,241	4,323,699
Total Liabilities and Fund Balances	\$ 1,043,413	\$ 928,025	\$ 1,087,778	\$ 2,228,020	\$ 5,346,056

See accompanying note to supplementary information.

Capital Facilities Fund	County School Facilities Fund	Special Reserve for Capital Outlay Projects Fund	Capital Projects for Blended Component Unit Fund	Bond Interest and Redemption Fund	Total Non-Major Governmental Funds
\$ 178,459	\$ 49,911	\$ -	\$ 3,260,550	\$ 4,911,573	\$ 14,917,075
464	127	-	8,883	-	871,047
29,215	-	4,424,670	-	-	7,615,318
-	-	-	-	-	-
-	-	-	-	-	93,704
<u>208,138</u>	<u>50,038</u>	<u>4,424,670</u>	<u>3,269,433</u>	<u>4,911,573</u>	<u>23,497,144</u>
-	-	-	2,468	-	1,443,942
-	-	-	1,576,676	-	2,170,515
-	-	-	-	-	54,575
-	-	-	<u>1,579,144</u>	-	<u>3,669,032</u>
-	-	-	-	-	93,704
208,138	50,038	4,424,670	1,690,289	4,911,573	17,063,901
-	-	-	-	-	-
-	-	-	-	-	2,670,507
<u>208,138</u>	<u>50,038</u>	<u>4,424,670</u>	<u>1,690,289</u>	<u>4,911,573</u>	<u>19,828,112</u>
<u>\$ 208,138</u>	<u>\$ 50,038</u>	<u>\$ 4,424,670</u>	<u>\$ 3,269,433</u>	<u>\$ 4,911,573</u>	<u>\$ 23,497,144</u>

LINCOLN UNIFIED SCHOOL DISTRICT

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

	Charter Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Building Fund
REVENUES					
LCFF sources	\$ 2,547,644	\$ -	\$ -	\$ 295,212	\$ -
Federal sources	-	3,075	3,275,084	-	-
Other State sources	182,475	877,385	230,756	-	-
Other local sources	45,382	1,210,528	488,305	53,828	75,799
Total Revenues	2,775,501	2,090,988	3,994,145	349,040	75,799
EXPENDITURES					
Current					
Instruction	1,493,355	1,557,055	-	-	-
Instruction-related activities:					
Supervision of Instruction	-	273,157	-	-	-
Instructional library, media and Tech	48,477	-	-	-	-
School site administration	301,810	122,343	-	-	-
Pupil services:					
Food services	-	-	4,130,938	-	-
General administration					
All other general administration	320,087	90,496	183,117	-	-
Plant services	83,467	-	12,456	-	-
Facilities acquisition and construction	36,267	-	-	1,115,821	12,287,917
Debt Service					
Principal	-	-	-	-	-
Interest and other	-	-	-	-	-
Total Expenditures	2,283,463	2,043,051	4,326,511	1,115,821	12,287,917
Excess (Deficiency) of Revenues					
Over Expenditures	492,038	47,937	(332,366)	(766,781)	(12,212,118)
Other Financing Sources (Uses)					
Transfers in	-	-	4,395	1,295,212	-
Other Sources	-	-	-	-	-
Net Financing Sources (Uses)	-	-	4,395	1,295,212	-
NET CHANGE IN FUND BALANCES	492,038	47,937	(327,971)	528,431	(12,212,118)
Fund Balance - Beginning	159,996	635,511	1,140,953	1,542,810	16,535,817
Fund Balance - Ending	\$ 652,034	\$ 683,448	\$ 812,982	\$ 2,071,241	\$ 4,323,699

See accompanying note to supplementary information.

Capital Facilities Fund	County School Facilities Fund	Special Reserve for Capital Outlay Projects Fund	Capital Projects for Blended Component Unit Fund	Bond Interest and Redemption Fund	Total Non-Major Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,842,856
-	-	-	-	113,255	3,391,414
-	-	-	-	59,167	1,349,783
4,578	410	4,424,670	1,322,258	5,425,947	13,051,705
4,578	410	4,424,670	1,322,258	5,598,369	20,635,758
-	-	-	-	-	3,050,410
-	-	-	-	-	273,157
-	-	-	-	-	48,477
-	-	-	-	-	424,153
-	-	-	-	-	4,130,938
-	-	-	-	-	593,700
-	-	-	33,736	-	129,659
100,000	-	-	3,094,062	-	16,634,067
-	-	-	484,744	2,824,880	3,309,624
-	-	-	77,908	3,108,680	3,186,588
100,000	-	-	3,690,450	5,933,560	31,780,773
(95,422)	410	4,424,670	(2,368,192)	(335,191)	(11,145,015)
-	-	-	-	-	1,299,607
-	-	-	1,759,837	-	1,759,837
-	-	-	1,759,837	-	3,059,444
(95,422)	410	4,424,670	(608,355)	(335,191)	(8,085,571)
303,560	49,628	-	2,298,644	5,246,764	27,913,683
\$ 208,138	\$ 50,038	\$ 4,424,670	\$ 1,690,289	\$ 4,911,573	\$ 19,828,112

LINCOLN UNIFIED SCHOOL DISTRICT

**NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2017**

NOTE 1 – PURPOSES 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 Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

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 amount consists primarily of Federal Interest Subsidies.

<u>Description</u>	<u>CFDA Number</u>	<u>Amount</u>
Total Federal Revenues From the Statement of Revenues, Expenditures and Changes in Fund Balances:		\$ 8,112,472
Medi-Cal Billing Option	93.778	(268,493)
Federal Interest subsidy on Qualified School Construction Bonds	N/A	(113,255)
Total Schedule of Expenditures of Federal Awards		<u>\$ 7,730,724</u>

Indirect Cost Rate – The District has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

Sub-recipients – The District did not provide federal awards to sub-recipients during the year ended June 30, 2017.

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.

LINCOLN UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2017

Schedule of Instructional Time and Schedule of Instructional Time – Charter School

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. 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.

The District neither met nor exceeded its targeted funding.

Districts must maintain their instructional minutes at the 1986-87 requirement 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 provides information for the California Department of Education to monitor financial reporting by Charter Schools.

Non-Major Governmental Funds – Balance Sheet and Statement of Revenues, Expenditures and Change in Fund Balance

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

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IV - Independent Auditors' Reports

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Cichella & Tokunaga, LLP

Certified Public Accountants

4671 Golden Foothill Parkway ♦ El Dorado Hills, CA 95672
Voice: (877) 359-9588 ♦ Fax: (916) 941-7234

www.ctcpa.net

INDEPENDENT AUDITORS' 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
Lincoln Unified School District
Stockton, 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 the Lincoln Unified School District (the District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Lincoln Unified School District's basic financial statements, and have issued our report thereon dated December 7, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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.

Cubell + Tolson, LLP

El Dorado Hills, California
December 7, 2017

Cichella & Tokunaga, LLP

Certified Public Accountants

4671 Golden Foothill Parkway ♦ El Dorado Hills, CA 95672
Voice: (877) 359-9588 ♦ Fax: (916) 941-7234

www.ctcpa.net

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

Governing Board
Lincoln Unified School District
Stockton, California

Report on Compliance for Each Major Federal Program

We have audited Lincoln Unified School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Lincoln Unified School District's (the District) major Federal programs for the year ended June 30, 2017. Lincoln Unified School District's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, Lincoln Unified School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2017.

Report on Internal Control Over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or 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.

Cullin + Tolson, LLP

El Dorado Hills, California
December 7, 2017

Cichella & Tokunaga, LLP

Certified Public Accountants

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Voice: (877) 359-9588 ♦ Fax: (916) 941-7234

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH APPLICABLE REQUIREMENTS IN ACCORDANCE WITH 2016-17 GUIDE FOR ANNUAL AUDITS OF K-12 LOCAL EDUCATION AGENCIES AND STATE COMPLIANCE REPORTING

Governing Board
Lincoln Unified School District
Stockton, California

Report on State Compliance

We have audited Lincoln Unified School District's compliance with the types of compliance requirements as described in the *2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* applicable to the Lincoln Unified School District's programs as identified in the below schedule for the year ended June 30, 2017.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Lincoln Unified School District's State 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 *2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel. Those standards and the *2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* 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 the programs identified in the below schedule occurred. An audit includes examining, on a test basis, evidence about Lincoln Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion on compliance. However, our audit does not provide a legal determination on the District's compliance with those requirements.

In connection with the requirements referred to above, we selected and tested transactions and records to determine the Lincoln Unified School District's compliance with the applicable programs identified below:

Compliance Requirements	Procedures Performed
LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	No, see below
Continuation Education	Yes
Instructional Time	Yes
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	Not Applicable
GANN Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	Not Applicable
Middle or Early College High Schools	Not Applicable
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION AND CHARTER SCHOOLS	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After School Education and Safety Program	Yes
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study-Course Based	Not Applicable
Immunizations	Not Applicable
Mental Health Expenditures	Yes
CHARTER SCHOOLS	
Attendance	Yes
Mode of Instruction	Yes
Non-classroom-Based Instruction/Independent Study	Not Applicable
Determination of Funding for Non-classroom-Based Instruction	Not Applicable
Annual Instructional Minutes – Classroom Based	Yes
Charter School Facilities Grant Program	Not Applicable

The District's reported ADA for Independent Study was below the materiality level that requires testing; therefore, we did not perform any testing of Independent Study ADA.

Opinion on State Compliance

In our opinion, Lincoln Unified School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the programs identified in the above schedule for the year ended June 30, 2017

Cubell + Tolson, LLP

El Dorado Hills, California

December 7, 2017

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V - Schedule of Findings and Questioned Costs

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LINCOLN UNIFIED SCHOOL DISTRICT

**SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2017**

FINANCIAL STATEMENTS

Type of auditors' report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified not considered to be material weaknesses?	<u>None Reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major federal programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified not considered to be material weaknesses?	<u>None Reported</u>
Type of auditors' report issued on compliance for major federal programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	<u>No</u>
Identification of major federal programs	

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I, Basic Grant Low-Income and Neglected
_____	_____
_____	_____
_____	_____

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

STATE AWARDS

Internal control over state programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>None Reported</u>
Any audit findings disclosed that are required to be reported in accordance with Audits of California K-12 Local Education Agencies?	<u>No</u>
Type of auditors' report issued on compliance for state programs:	<u>Unmodified</u>

LINCOLN UNIFIED SCHOOL DISTRICT

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017**

None reported.

LINCOLN UNIFIED SCHOOL DISTRICT

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

There were no audit findings and questioned costs related to the federal awards for the year ended June 30, 2017.

LINCOLN UNIFIED SCHOOL DISTRICT

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

There were no audit findings and questioned costs related to the state awards for the year ended June 30, 2017.

LINCOLN UNIFIED SCHOOL DISTRICT

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

There were no prior year findings reported for June 30, 2016.