

# LANCASTER SCHOOL DISTRICT

AUDIT REPORT  
JUNE 30, 2016

San Diego

Los Angeles

San Francisco  
Bay Area

christy  white  
A PROFESSIONAL  
ACCOUNTANCY CORPORATION *associates*

**LANCASTER SCHOOL DISTRICT  
TABLE OF CONTENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

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**FINANCIAL SECTION**

Independent Auditors' Report .....	1
Management's Discussion and Analysis.....	4
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Position .....	11
Statement of Activities .....	12
Fund Financial Statements	
Governmental Funds – Balance Sheet.....	13
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position .....	14
Governmental Funds – Statement of Revenues, Expenditures, and Changes in Fund Balances.....	15
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities .....	16
Fiduciary Funds – Statement of Net Position.....	18
Fiduciary Funds – Statement of Changes in Net Position.....	19
Notes to Financial Statements .....	20

**REQUIRED SUPPLEMENTARY INFORMATION**

General Fund – Budgetary Comparison Schedule .....	55
Schedule of Funding Progress .....	56
Schedule of the District's Proportionate Share of the Net Pension Liability - CalSTRS .....	57
Schedule of the District's Proportionate Share of the Net Pension Liability - CalPERS.....	58
Schedule of District Contributions - CalSTRS .....	59
Schedule of District Contributions - CalPERS.....	60
Notes to Required Supplementary Information.....	61

**SUPPLEMENTARY INFORMATION**

Schedule of Expenditures of Federal Awards .....	63
Schedule of Average Daily Attendance (ADA).....	64
Schedule of Instructional Time.....	65
Schedule of Financial Trends and Analysis.....	66
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements.....	67
Schedule of Charter Schools .....	68
Combining Statements – Non-Major Governmental Funds	
Combining Balance Sheet.....	69
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances .....	70
Local Education Agency Organization Structure .....	71
Notes to Supplementary Information.....	72

**LANCASTER SCHOOL DISTRICT  
TABLE OF CONTENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

---

**OTHER INDEPENDENT AUDITORS' REPORTS**

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* ..... 74  
Report on Compliance For Each Major Federal Program; and Report on Internal Control Over Compliance Required by the Uniform Guidance..... 76  
Report on State Compliance..... 78

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Summary of Auditors' Results ..... 81  
Financial Statement Findings..... 82  
Federal Award Findings and Questioned Costs ..... 83  
State Award Findings and Questioned Costs..... 84  
Summary Schedule of Prior Audit Findings ..... 85

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# FINANCIAL SECTION

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## INDEPENDENT AUDITORS' REPORT

Governing Board  
Lancaster School District  
Lancaster, 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 Lancaster School District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Lancaster School 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. 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 entity'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 entity'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.

Christy White, CPA

Michael Ash, CPA

Heather Rubio

SAN DIEGO  
LOS ANGELES  
SAN FRANCISCO/BAY AREA

Corporate Office:  
348 Olive Street  
San Diego, CA 92103

toll-free: 877.220.7229  
tel: 619.270.8222  
fax: 619.260.9085  
www.christywhite.com

*Licensed by the California  
State Board of Accountancy*

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 Lancaster School District, as of June 30, 2016, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### *Other Matters*

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the required supplementary information, such as management's discussion and analysis, budgetary comparison information, schedule of funding progress for OPEB benefits, schedules of proportionate share of net pension liability, and schedules of District contributions for pensions be presented to supplement the basic financial statements. Such information, although not 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 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.

#### *Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Lancaster School District's basic financial statements. The supplementary information listed in the table of contents, including the schedule of expenditures of Federal awards, which is required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information listed in the table of contents is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 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 6, 2016 on our consideration of Lancaster School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 Lancaster School District's internal control over financial reporting and compliance.

*Christy White Associates*

San Diego, California  
December 6, 2016

**LANCASTER SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**INTRODUCTION**

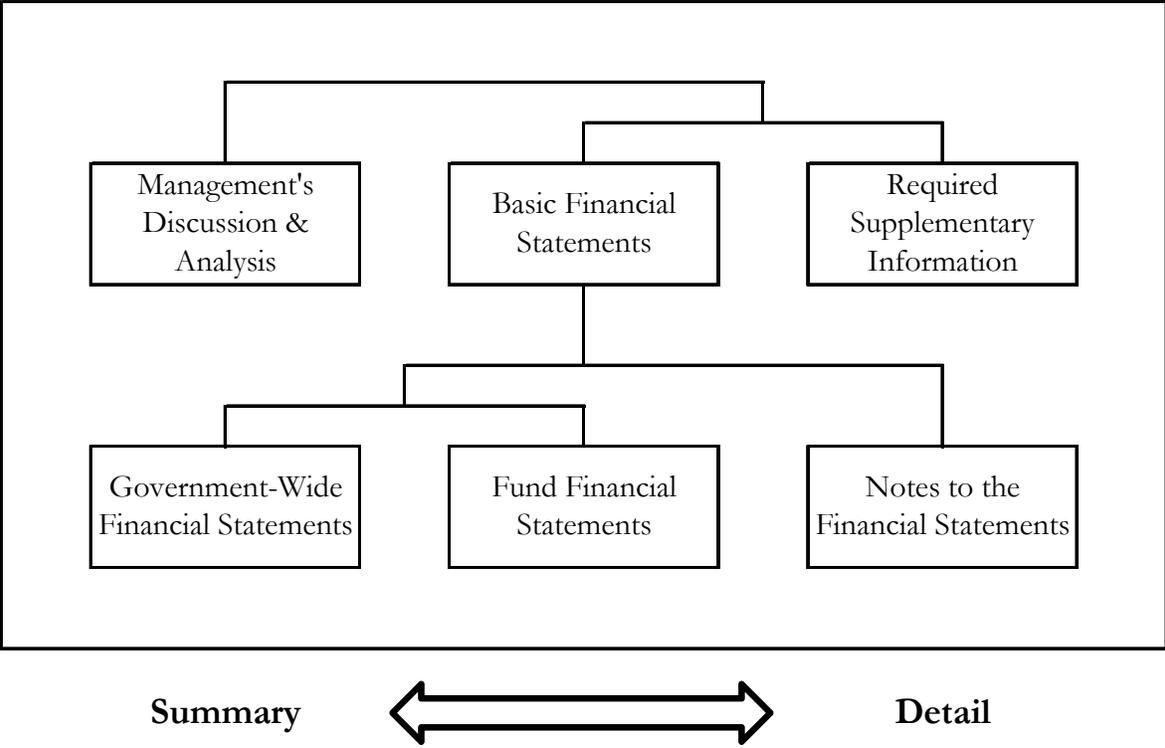
Our discussion and analysis of Lancaster School District's (District) financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2016. It should be read in conjunction with the District's financial statements, which follow this section.

**FINANCIAL HIGHLIGHTS**

- ▶ Total net position was \$12,078,914 at June 30, 2016. This was an increase of \$8,111,242 from the prior year net position.
- ▶ Overall revenues were \$168,518,480 which were more than expenses of \$160,407,238.

**OVERVIEW OF FINANCIAL STATEMENTS**

**Components of the Financials Section**



LANCASTER SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS, *continued*  
FOR THE YEAR ENDED JUNE 30, 2016

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This annual report consists of three parts – Management's Discussion and Analysis (this section), the basic financial statements, and required supplementary information. The three sections together provide a comprehensive overview of the District. The basic financial statements are comprised of two kinds of statements that present financial information from different perspectives:

- ▶ **Government-wide financial statements**, which comprise the first two statements, provide both short-term and long-term information about the entity's overall financial position.
  
- ▶ **Fund financial statements** focus on reporting the individual parts of District operations in more detail. The fund financial statements comprise the remaining statements.
  - ▶ **Governmental Funds** provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.
  
  - ▶ **Fiduciary Funds** report balances for which the District is a custodian or *trustee* of the funds, such as Associated Student Bodies and pension funds.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The basic financial statements are followed by a section of required and other supplementary information that further explain and support the financial statements.

### **Government-Wide Statements**

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

The two government-wide statements report the District's net position and how it has changed. Net position is one way to measure the District's financial health or position. Over time, increases or decreases in the District's net position are an indicator of whether its financial health is improving or deteriorating, respectively.

The government-wide financial statements of the District include governmental activities. All of the District's basic services are included here, such as regular education, food service, maintenance and general administration. Local control formula funding and federal and state grants finance most of these activities.

LANCASTER SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS, *continued*  
FOR THE YEAR ENDED JUNE 30, 2016

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FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE

Net Position

The District's combined net position was \$12,078,914 at June 30, 2016, as reflected in the table below. Of this amount, (\$112,159,452) was unrestricted. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the Governing Board's ability to use that net position for day-to-day operations.

	<b>Governmental Activities</b>		
	<b>2016</b>	<b>2015</b>	<b>Net Change</b>
<b>ASSETS</b>			
Current and other assets	\$ 59,562,001	\$ 43,885,748	\$ 15,676,253
Capital assets	147,908,397	149,711,528	(1,803,131)
<b>Total Assets</b>	<b>207,470,398</b>	<b>193,597,276</b>	<b>13,873,122</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<b>17,019,441</b>	<b>7,070,766</b>	<b>9,948,675</b>
<b>LIABILITIES</b>			
Current liabilities	11,964,207	8,206,707	3,757,500
Long-term liabilities	189,192,772	164,962,775	24,229,997
<b>Total Liabilities</b>	<b>201,156,979</b>	<b>173,169,482</b>	<b>27,987,497</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<b>11,253,946</b>	<b>23,530,888</b>	<b>(12,276,942)</b>
<b>NET POSITION</b>			
Net investment in capital assets	106,956,248	107,347,903	(391,655)
Restricted	17,282,118	11,440,060	5,842,058
Unrestricted	(112,159,452)	(114,820,291)	2,660,839
<b>Total Net Position</b>	<b>\$ 12,078,914</b>	<b>\$ 3,967,672</b>	<b>\$ 8,111,242</b>

LANCASTER SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS, *continued*  
FOR THE YEAR ENDED JUNE 30, 2016

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FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE (*continued*)

**Changes in Net Position**

The results of this year's operations for the District as a whole are reported in the Statement of Activities. The table below takes the information from the Statement and rearranges them slightly, so you can see our total revenues, expenses, and special items for the year.

	<b>Governmental Activities</b>		
	<b>2016</b>	<b>2015</b>	<b>Net Change</b>
<b>REVENUES</b>			
Program revenues			
Charges for services	\$ 327,749	\$ 191,580	\$ 136,169
Operating grants and contributions	32,678,955	26,464,212	6,214,743
General revenues			
Property taxes	17,355,879	10,871,061	6,484,818
Unrestricted federal and state aid	116,440,678	99,710,125	16,730,553
Other	1,715,219	2,797,521	(1,082,302)
<b>Total Revenues</b>	<b>168,518,480</b>	<b>140,034,499</b>	<b>28,483,981</b>
<b>EXPENSES</b>			
Instruction	93,051,593	86,464,848	6,586,745
Instruction-related services	15,406,686	14,539,641	867,045
Pupil services	20,584,877	16,512,830	4,072,047
General administration	8,488,912	7,465,053	1,023,859
Plant services	14,859,387	12,704,848	2,154,539
Ancillary and community services	1,208,356	1,258,324	(49,968)
Debt service	3,388,180	3,427,020	(38,840)
Other Outgo	1,687,413	1,779,737	(92,324)
Other	1,731,834	1,664,966	66,868
<b>Total Expenses</b>	<b>160,407,238</b>	<b>145,817,267</b>	<b>14,589,971</b>
<b>Change in net position</b>	<b>8,111,242</b>	<b>(5,782,768)</b>	<b>13,894,010</b>
<b>Net Position - Beginning*</b>	<b>3,967,672</b>	<b>9,750,440</b>	<b>(5,782,768)</b>
<b>Net Position - Ending</b>	<b>\$ 12,078,914</b>	<b>\$ 3,967,672</b>	<b>\$ 8,111,242</b>

\* *Beginning Net Position was restated for the 2015 year only*

**LANCASTER SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued  
FOR THE YEAR ENDED JUNE 30, 2016**

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**FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE (continued)**

**Changes in Net Position (continued)**

The total cost of all our governmental activities this year was \$160,407,238, while the net cost of services was \$127,400,534 (refer to the table below). The amount that our taxpayers ultimately financed for these activities through taxes was only \$17,355,879 because the cost was paid by other governments and organizations who subsidized certain programs with grants and contributions.

	<b>Net Cost of Services</b>	
	<b>2016</b>	<b>2015</b>
Instruction	\$ 76,049,367	\$ 72,576,021
Instruction-related services	12,956,386	12,725,245
Pupil services	9,667,626	8,187,536
General administration	7,454,341	6,684,309
Plant services	14,847,149	12,687,371
Ancillary and community services	168,719	188,425
Debt service	3,388,180	3,427,020
Transfers to other agencies	1,136,932	1,020,582
Other	1,731,834	1,664,966
<b>Total Expenses</b>	<b>\$ 127,400,534</b>	<b>\$ 119,161,475</b>

**FINANCIAL ANALYSIS OF THE DISTRICT'S MAJOR FUNDS**

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed this year, its governmental funds reported a combined fund balance of \$51,111,016, which is more than last year's ending fund balance of \$39,251,932. The District's General Fund had \$13,015,201 more in operating revenues than expenditures for the year ended June 30, 2016. The District's Building Fund had \$697,726 less in operating revenues than expenditures for the year ended June 30, 2016.

**CURRENT YEAR BUDGET 2015-16**

During the fiscal year, budget revisions and appropriation transfers are presented to the Board for their approval on a monthly basis to reflect changes to both revenues and expenditures that become known during the year. In addition, the Board of Education approves financial projections included with the Adopted Budget, First Interim, and Second Interim financial reports. The Unaudited Actuals reflect the District's financial projections and current budget based on State and local financial information.

LANCASTER SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS, *continued*  
FOR THE YEAR ENDED JUNE 30, 2016

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**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

By the end of 2015-16 the District had invested \$147,908,397 in capital assets, net of accumulated depreciation.

	<b>Governmental Activities</b>		
	<b>2016</b>	<b>2015</b>	<b>Net Change</b>
<b>CAPITAL ASSETS</b>			
Land	\$ 9,507,508	\$ 9,507,508	\$ -
Construction in progress	6,694,335	4,030,176	2,664,159
Land improvements	21,084,138	20,961,611	122,527
Buildings & improvements	187,430,623	187,186,371	244,252
Furniture & equipment	23,496,506	23,308,417	188,089
Accumulated depreciation	(100,304,713)	(95,282,555)	(5,022,158)
<b>Total Capital Assets</b>	<b>\$147,908,397</b>	<b>\$149,711,528</b>	<b>\$ (1,803,131)</b>

**Long-Term Liabilities**

At year-end, the District had \$189,192,272 in long-term liabilities, an increase of 13% from last year – as shown in the table below. (More detailed information about the District's long-term liabilities is presented in footnotes to the financial statements.)

	<b>Governmental Activities</b>		
	<b>2016</b>	<b>2015</b>	<b>Net Change</b>
<b>LONG-TERM LIABILITIES</b>			
Total general obligation bonds	\$ 61,373,166	\$ 62,220,729	\$ (847,563)
Total certificates of participation	7,870,000	8,010,000	(140,000)
Capital leases	-	376,531	(376,531)
Early retirement incentive	1,347,500	865,500	482,000
Compensated absences	638,903	622,943	15,960
Net OPEB obligation	14,725,278	12,249,480	2,475,798
Net pension liability	106,096,608	83,498,937	22,597,671
Less: current portion of long-term debt	(2,858,683)	(2,881,345)	22,662
<b>Total Long-term Liabilities</b>	<b>\$189,192,272</b>	<b>\$164,962,775</b>	<b>\$ 24,229,997</b>

**LANCASTER SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued  
FOR THE YEAR ENDED JUNE 30, 2016**

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**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

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

Landmark legislation passed in Year 2013 reformed California school district finance by creating the Local Control Funding Formula (LCFF). The District continues to analyze the impact of the LCFF on funding for our program offerings and services. The LCFF is designed to provide a flexible funding mechanism that links student achievement to state funding levels. The LCFF provides a per pupil base grant amount, by grade span, that is augmented by supplemental funding for targeted student groups in low income brackets, those that are English language learners and foster youth. The State anticipates all school districts to reach the statewide targeted base funding levels by 2020-21 but the annual amount funded to meet the target is uncertain.

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

The State's economy is expected to grow faster than the national economy with unemployment dropping. Personal income is expected to grow 3.6%; according to the UCLA Anderson Economic Forecast, April 2016. The ability of the State to fund the LCFF and other programs is largely dependent on the strength of the State's economy and while positive remains uncertain.

The District participates in state employee pensions plans, PERS and STRS, and both are underfunded. The District's proportionate share of the liability is reported in the Statement of Net Position as of June 30, 2016. The amount of the liability is material to the financial position of the District. To address the underfunding issues, the pension plans continue to raise employer rates in future years and the increased costs are significant.

Enrollment can fluctuate due to factors such as population growth, competition from private, parochial, inter-district transfers in or out, economic conditions and housing values. Losses in enrollment will cause a school district to lose operating revenues without necessarily permitting the district to make adjustments in fixed operating costs.

All of these factors were considered in preparing the District's budget for the 2016-17 fiscal year.

**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 Business Services Department at Lancaster School District, 44711 N Cedar Avenue; Lancaster CA 93534.

LANCASTER SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
JUNE 30, 2016

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	<b>Governmental Activities</b>
<b>ASSETS</b>	
Cash and investments	\$ 51,215,958
Accounts receivable	8,123,890
Inventory	200,833
Prepaid expenses	21,320
Capital assets, not depreciated	16,201,843
Capital assets, net of accumulated depreciation	131,706,554
<b>Total Assets</b>	<b>207,470,398</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred outflows related to pensions	17,019,441
<b>Total Deferred Outflows of Resources</b>	<b>17,019,441</b>
<b>LIABILITIES</b>	
Deficit cash	41,175
Accrued liabilities	9,064,349
Long-term liabilities, current portion	2,858,683
Long-term liabilities, non-current portion	189,192,772
<b>Total Liabilities</b>	<b>201,156,979</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred inflows related to pensions	10,820,802
Deferred amount on refunding	433,144
<b>Total Deferred Inflows of Resources</b>	<b>11,253,946</b>
<b>NET POSITION</b>	
Net investment in capital assets	106,956,248
Restricted:	
Capital projects	6,617,693
Debt service	3,817,720
Educational programs	2,449,544
All others	4,397,161
Unrestricted	(112,159,452)
<b>Total Net Position</b>	<b>\$ 12,078,914</b>

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

**LANCASTER SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2016**

Function/Programs	Expenses	Program Revenues		Net (Expenses) Revenues and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions		Governmental Activities
<b>GOVERNMENTAL ACTIVITIES</b>					
Instruction	\$ 93,051,593	\$ -	\$ 17,002,226	\$ (76,049,367)	
Instruction-related services					
Instructional supervision and administration	3,305,918	-	1,750,497	(1,555,421)	
Instructional library, media, and technology	1,180,222	-	96,418	(1,083,804)	
School site administration	10,920,546	-	603,385	(10,317,161)	
Pupil services					
Home-to-school transportation	3,497,184	-	757,706	(2,739,478)	
Food services	7,081,609	-	7,015,044	(66,565)	
All other pupil services	10,006,084	312,576	2,831,925	(6,861,583)	
General administration					
Centralized data processing	1,965,986	-	35,346	(1,930,640)	
All other general administration	6,522,926	15,173	984,052	(5,523,701)	
Plant services	14,859,387	-	12,238	(14,847,149)	
Ancillary services	12,402	-	-	(12,402)	
Community services	1,195,954	-	1,039,637	(156,317)	
Enterprise activities	1,731,834	-	-	(1,731,834)	
Interest on long-term debt	3,388,180	-	-	(3,388,180)	
Other Outgo	1,687,413	-	550,481	(1,136,932)	
<b>Total Governmental Activities</b>	<b>\$ 160,407,238</b>	<b>\$ 327,749</b>	<b>\$ 32,678,955</b>	<b>(127,400,534)</b>	
General revenues					
Taxes and subventions					
Property taxes, levied for general purposes				11,666,924	
Property taxes, levied for debt service				4,653,797	
Property taxes, levied for other specific purposes				1,035,158	
Federal and state aid not restricted for specific purposes				116,440,678	
Interest and investment earnings				441,037	
Miscellaneous				1,274,182	
<b>Subtotal, General Revenue</b>				<b>135,511,776</b>	
<b>CHANGE IN NET POSITION</b>				<b>8,111,242</b>	
<b>Net Position - Beginning</b>				<b>3,967,672</b>	
<b>Net Position - Ending</b>				<b>\$ 12,078,914</b>	

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

LANCASTER SCHOOL DISTRICT  
GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2016

	General Fund	Building Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and investments	\$ 22,342,637	\$ 12,237,960	\$ 16,635,361	\$ 51,215,958
Accounts receivable	5,922,178	39,770	2,161,942	8,123,890
Due from other funds	50,000	-	-	50,000
Stores inventory	-	-	200,833	200,833
Prepaid expenditures	21,320	-	-	21,320
<b>Total Assets</b>	<b>\$ 28,336,135</b>	<b>\$ 12,277,730</b>	<b>\$ 18,998,136</b>	<b>\$ 59,612,001</b>
<b>LIABILITIES</b>				
Deficit cash	\$ -	\$ -	\$ 41,175	\$ 41,175
Accrued liabilities	7,957,472	79,467	372,871	8,409,810
Due to other funds	-	-	50,000	50,000
<b>Total Liabilities</b>	<b>7,957,472</b>	<b>79,467</b>	<b>464,046</b>	<b>8,500,985</b>
<b>FUND BALANCES</b>				
Nonspendable	36,319	-	473,748	510,067
Restricted	2,326,939	12,198,263	15,609,718	30,134,920
Committed	-	-	1,544,640	1,544,640
Assigned	3,200,000	-	905,984	4,105,984
Unassigned	14,815,405	-	-	14,815,405
<b>Total Fund Balances</b>	<b>20,378,663</b>	<b>12,198,263</b>	<b>18,534,090</b>	<b>51,111,016</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 28,336,135</b>	<b>\$ 12,277,730</b>	<b>\$ 18,998,136</b>	<b>\$ 59,612,001</b>

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

**LANCASTER SCHOOL DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT  
OF NET POSITION  
JUNE 30, 2016**

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**Total Fund Balance - Governmental Funds** \$ 51,111,016

Amounts reported for assets and liabilities for governmental activities in the statement of net position are different from amounts reported in governmental funds because:

Capital assets:

In governmental funds, only current assets are reported. In the statement of net position, all assets are reported, including capital assets and accumulated depreciation:

Capital assets	\$ 248,213,110	
Accumulated depreciation	(100,304,713)	147,908,397

Deferred amount on refunding:

In governmental funds, the net effect of refunding bonds is recognized when debt is issued, whereas this amount is deferred and amortized in the government-wide financial statements: (433,144)

Unmatured interest on long-term debt:

In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred. The additional liability for unmaturing interest owing at the end of the period was: (654,539)

Long-term liabilities:

In governmental funds, only current liabilities are reported. In the statement of net position, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consist of:

Total general obligation bonds	\$ 61,373,166	
Total certificates of participation	7,870,000	
Early retirement incentive	1,347,500	
Compensated absences	638,903	
Net OPEB obligation	14,725,278	
Net pension liability	106,096,608	(192,051,455)

Deferred outflows and inflows of resources relating to pensions:

In governmental funds, deferred outflows and inflows of resources relating to pensions are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources relating to pensions are reported.

Deferred outflows of resources related to pensions	\$ 17,019,441	
Deferred inflows of resources related to pensions	(10,820,802)	6,198,639

**Total Net Position - Governmental Activities** \$ 12,078,914

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

**LANCASTER SCHOOL DISTRICT  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2016**

	General Fund	Building Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
LCFF sources	\$ 118,266,689	\$ -	\$ -	\$ 118,266,689
Federal sources	9,286,477	-	6,766,473	16,052,950
Other state sources	16,116,427	-	2,873,549	18,989,976
Other local sources	8,527,112	100,772	6,854,832	15,482,716
<b>Total Revenues</b>	<b>152,196,705</b>	<b>100,772</b>	<b>16,494,854</b>	<b>168,792,331</b>
<b>EXPENDITURES</b>				
Current				
Instruction	85,679,896	-	1,688,075	87,367,971
Instruction-related services				
Instructional supervision and administration	2,912,025	-	235,604	3,147,629
Instructional library, media, and technology	1,120,119	-	-	1,120,119
School site administration	10,092,537	-	197,633	10,290,170
Pupil services				
Home-to-school transportation	3,112,704	-	-	3,112,704
Food services	19,515	-	6,865,284	6,884,799
All other pupil services	9,767,095	-	30,642	9,797,737
General administration				
Centralized data processing	1,921,699	-	-	1,921,699
All other general administration	5,968,366	-	459,995	6,428,361
Plant services				
Facilities acquisition and maintenance	-	798,498	2,461,111	3,259,609
Ancillary services	12,385	-	-	12,385
Community services	1,168,845	-	-	1,168,845
Enterprise activities	1,568,710	-	-	1,568,710
Transfers to other agencies	1,771,014	-	-	1,771,014
Debt service				
Principal	-	-	2,462,808	2,462,808
Interest and other	82,379	-	2,247,122	2,329,501
<b>Total Expenditures</b>	<b>139,181,504</b>	<b>798,498</b>	<b>16,953,245</b>	<b>156,933,247</b>
<b>Excess (Deficiency) of Revenues</b>				
<b>Over Expenditures</b>	<b>13,015,201</b>	<b>(697,726)</b>	<b>(458,391)</b>	<b>11,859,084</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	-	7,100,079	7,100,079
Transfers out	(6,600,079)	-	(500,000)	(7,100,079)
<b>Net Financing Sources (Uses)</b>	<b>(6,600,079)</b>	<b>-</b>	<b>6,600,079</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>6,415,122</b>	<b>(697,726)</b>	<b>6,141,688</b>	<b>11,859,084</b>
<b>Fund Balance - Beginning</b>	<b>13,963,541</b>	<b>12,895,989</b>	<b>12,392,402</b>	<b>39,251,932</b>
<b>Fund Balance - Ending</b>	<b>\$ 20,378,663</b>	<b>\$ 12,198,263</b>	<b>\$ 18,534,090</b>	<b>\$ 51,111,016</b>

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

**LANCASTER 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, 2016**

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Net Change in Fund Balances - Governmental Funds \$ 11,859,084

Amounts reported for governmental activities in the statement of activities are different from amounts reported in governmental funds because:

Capital outlay:

In governmental funds, the costs of capital assets are reported as expenditures in the period when the assets are acquired. In the statement of activities, costs of capital assets are allocated over their estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is:

Expenditures for capital outlay:	\$ 3,219,027	
Depreciation expense:	<u>(5,022,158)</u>	(1,803,131)

Debt service:

In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reductions of liabilities. Expenditures for repayment of the principal portion of long-term debt were:

2,931,531

Deferred amounts on refunding:

In governmental funds, deferred amounts on refunding are recognized in the period they are incurred. In the government-wide statements, the deferred amounts on refunding are amortized over the life of the debt. The net effect of the deferred amounts on refunding during the period was:

86,629

Unmatured interest on long-term debt:

In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period, was:

37,007

Accreted interest on long-term debt:

In governmental funds, accreted interest on capital appreciation bonds is not recorded as an expenditure from current sources. In the government-wide statement of activities, however, this is recorded as interest expense for the period.

(1,646,974)

Compensated absences:

In governmental funds, compensated absences are measured by the amounts paid during the period. In the statement of activities, compensated absences are measured by the amount earned. The difference between compensated absences paid and compensated absences earned, was:

(15,960)

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

**LANCASTER SCHOOL DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE STATEMENT OF  
ACTIVITIES, continued  
FOR THE YEAR ENDED JUNE 30, 2016**

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Postemployment benefits other than pensions (OPEB):

In governmental funds, OPEB costs are recognized when employer contributions are made. In the statement of activities, OPEB costs are recognized on the accrual basis. This year, the difference between OPEB costs and actual employer contributions was: (2,475,798)

Pensions:

In governmental funds, pension costs are recognized when employer contributions are made, in the government-wide statement of activities, pension costs are recognized on the accrual basis. This year, the difference between accrual-basis pension costs and employer contributions was: (458,683)

Other liabilities not normally liquidated with current financial resources:

In the government-wide statements, expenses must be accrued in connection with any liabilities incurred during the period that are not expected to be liquidated with current financial resources. Examples include special termination benefits such as retirement incentives financed over time, and structured legal settlements. This year, expenses incurred for such obligations were: (482,000)

Amortization of debt issuance premium or discount:

In governmental funds, if debt is issued at a premium or at a discount, the premium or discount is recognized as an Other Financing Source or an Other Financing Use in the period it is incurred. In the government-wide statements, the premium or discount is amortized over the life of the debt. Amortization of premium or discount for the period is: 79,537

<b>Change in Net Position of Governmental Activities</b>	\$ 8,111,242
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LANCASTER SCHOOL DISTRICT  
 FIDUCIARY FUNDS  
 STATEMENT OF NET POSITION  
 JUNE 30, 2016

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	Trust Funds		Agency Funds	
	Retiree Benefit Fund		Warrant/Pass-through Fund	Student Body Fund
<b>ASSETS</b>				
Cash and investments	\$	11	\$ 1,290,931	\$ 229,212
Accounts receivable		-	835	-
<b>Total Assets</b>		<b>11</b>	<b>\$ 1,291,766</b>	<b>\$ 229,212</b>
<b>LIABILITIES</b>				
Accrued liabilities		-	\$ 1,291,766	\$ -
Due to student groups		-	-	229,212
<b>Total Liabilities</b>		<b>-</b>	<b>\$ 1,291,766</b>	<b>\$ 229,212</b>
<b>NET POSITION</b>				
Unrestricted		11		
<b>Total Net Position</b>	<b>\$</b>	<b>11</b>		

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

LANCASTER SCHOOL DISTRICT  
 FIDUCIARY FUNDS  
 STATEMENT OF CHANGES IN NET POSITION  
 FOR THE YEAR ENDED JUNE 30, 2016

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	<u>Trust Funds</u>
	<u>Retiree Benefit</u>
	<u>Fund</u>
<b>ADDITIONS</b>	
Contributions	\$ -
<b>Total Additions</b>	<u>-</u>
<b>DEDUCTIONS</b>	
Benefits	-
<b>Total Deductions</b>	<u>-</u>
<b>CHANGE IN NET POSITION</b>	-
<b>Net Position - Beginning</b>	<u>11</u>
<b>Net Position - Ending</b>	<u>\$ 11</u>

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The Lancaster School District (the “District”) accounts for its financial transactions in accordance with the policies and procedures of the Department of Education's *California School Accounting Manual*. The accounting policies of the District conform to generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

The District operates under a locally elected Board form of government and provides educational services to grades K-8 as mandated by the state. 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 and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student-related activities.

B. Component Units

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete. For financial reporting purposes, the component units have a financial and operational relationship which meets the reporting entity definition criteria and thus are included in the financial statements of the District. The component units, although legally separate entities, are reported in the financial statements using the blended presentation method as if they were part of the District's operations because the governing board of the component units is essentially the same as the governing board of the District and because their purpose is to finance the construction of facilities to be used for the direct benefit of the District.

The Lancaster School Facilities Corporation (the “Corporation”) is a nonprofit, public benefit corporation, incorporated under the laws of the State of California. The Corporation was formed to provide financing assistance to the District for the construction and acquisition of major capital facilities. Upon completion of the subject transactions, the District intends to occupy the Corporation's facilities under a lease, purchase agreement effective through the year 2009. At the end of the lease term, title of the Corporation's property will pass to the District for no additional consideration. The financial activity for the Corporation is presented in the financial statements as the part of the Debt Service Fund.

The Lancaster Community Facilities Districts (CFDs) financial activity is presented in the financial statements as the Capital Projects Fund for Blended Component Units and in the Debt Service Fund for Blended Component Units. A parcel tax is imposed on the individual properties in the CFD and collected by the Los Angeles County Auditor-Controller's office. That money is then transferred to the trustees account to pay the bond holders.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

C. Basis of Presentation

**Government-Wide Statements.** The statement of net position and the statement of activities display information about the primary government (the District). These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenue, and other non-exchange transactions.

The statement of activities presents a comparison between direct expenses and program revenue for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reserved for the statement of activities. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting of operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the District.

**Fund Financial Statements.** The fund financial statements provide information about the District's funds, including its fiduciary funds. Separate statements for each fund category – governmental and fiduciary – are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as non-major funds.

Governmental funds are used to account for activities that are governmental in nature. Governmental activities are typically tax-supported and include education of pupils, operation of food service and child development programs, construction and maintenance of school facilities, and repayment of long-term debt.

Fiduciary funds are used to account for assets held by the District in a trustee or agency capacity for others that cannot be used to support the District's own programs.

Major Governmental Funds

**General Fund:** The General Fund is the main operating fund of the District. It is used to account for all activities except those that are required to be accounted for in another fund. In keeping with the minimum number of funds principle, all of the District's activities are reported in the General Fund unless there is a compelling reason to account for an activity in another fund. A District may have only one General Fund.

**Building Fund:** This fund exists primarily to account separately for proceeds from the sale of bonds (Education Code Section 15146) and may not be used for any purposes other than those for which the bonds were issued. Other authorized revenues to the Building Fund are proceeds from the sale or lease-with-option-to-purchase of real property (Education Code Section 17462) and revenue from rentals and leases of real property specifically authorized for deposit into the fund by the governing board (Education Code Section 41003).

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

C. Basis of Presentation (*continued*)

Non-Major Governmental Funds

**Special Revenue Funds:** Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects. The District maintains the following special revenue funds:

**Child Development Fund:** This fund is used to account separately for federal, state, and local revenues to operate child development programs. All moneys received by the District for, or from the operation of, child development services covered under the Child Care and Development Services Act (*Education Code Section 8200 et seq.*) shall be deposited into this fund. The moneys may be used only for expenditures for the operation of child development programs. The costs incurred in the maintenance and operation of child development services shall be paid from this fund, with accounting to reflect specific funding sources (*Education Code Section 8328*).

**Cafeteria Special Revenue Fund:** This fund is used to account separately for federal, state, and local resources to operate the food service program (*Education Code Sections 38090–38093*). The Cafeteria Special Revenue Fund shall be 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*).

**Deferred Maintenance Fund:** This fund is used to account separately for state apportionments and the District's contributions for deferred maintenance purposes (*Education Code Sections 17582–17587*). In addition, whenever the state funds provided pursuant to *Education Code Sections 17584 and 17585* (apportionments from the State Allocation Board) are insufficient to fully match the local funds deposited in this fund, the governing board of a school district may transfer the excess local funds deposited in this fund to any other expenditure classifications in other funds of the District (*Education Code Sections 17582 and 17583*).

**Capital Project Funds:** 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).

**Capital Facilities Fund:** This fund is used primarily to account separately for moneys received from fees levied on developers or other agencies as a condition of approving a development (*Education Code Sections 17620–17626*). The authority for these levies may be county/city ordinances (*Government Code Sections 65970–65981*) or private agreements between the District and the developer. Interest earned in the Capital Facilities Fund is restricted to that fund (*Government Code Section 66006*).

**County School Facilities Fund:** This 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.*).

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

Non-Major Governmental Funds (continued)

**Capital Project Funds (continued)**

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

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

**Debt Service Funds:** 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:** This fund is used for the repayment of bonds issued for the District (*Education Code Sections 15125–15262*). The board of supervisors of the county issues the bonds. The proceeds from the sale of the bonds are deposited in the county treasury to the Building Fund of the District. Any premiums or accrued interest received from the sale of the bonds must be deposited in the Bond Interest and Redemption Fund of the District. The county auditor maintains control over the District's Bond Interest and Redemption Fund. The principal and interest on the bonds must be paid by the county treasurer from taxes levied by the county auditor-controller.

**Debt Service Fund for Blended Component Units:** This fund is used to account for the accumulation of resources for the payment of principal and interest on bonds issued by Mello-Roos Community Facilities Districts and similar entities that are considered blended component units of the District under generally accepted accounting principles (GAAP).

**Debt Service Fund:** This fund is used for the accumulation of resources for and the retirement of principal and interest on general long-term debt.

Fiduciary Funds

**Trust and Agency Funds:** Trust and agency funds are used to account for assets held in a trustee or agent capacity for others that cannot be used to support the District's own programs. The key distinction between trust and agency funds is that trust funds are subject to a trust agreement that affects the degree of management involvement and the length of time that the resources are held.

**Retiree Benefit Fund:** This fund exists to account separately for amounts held in trust from salary reduction agreements, other irrevocable contributions for employees' retirement benefit payments, or both.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

C. Basis of Presentation (*continued*)

Fiduciary Funds (*continued*)

**Warrant/Pass-Through Fund:** This fund exists primarily to account separately for amounts collected from employees for federal taxes, state taxes, transfers to credit unions, and other contributions.

**Student Body Fund:** The Student Body Fund is an agency fund and, therefore, consists only of accounts such as cash and balancing liability accounts, such as due to student groups. The student body itself maintains its own general fund, which accounts for the transactions of that entity in raising and expending money to promote the general welfare, morale, and educational experiences of the student body (*Education Code Sections 48930–48938*).

D. Basis of Accounting – Measurement Focus

**Government-Wide and Fiduciary Financial Statements**

The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide and fiduciary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

Net Position equals assets and deferred outflows of resources minus liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. The net position should be reported as restricted when constraints placed on its 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 results from special revenue funds and the restrictions on their use.

**Governmental Funds**

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Governmental funds use the modified accrual basis of accounting.

**Revenues – Exchange and Non-Exchange Transactions**

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under 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 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” means collectible within the current period or within 60 days after year-end. However, to achieve comparability of reporting among California school districts and so as not to distort normal revenue patterns, with specific respect to reimbursements grants and corrections to State-aid apportionments, the California Department of Education has defined available for school districts as collectible within one year.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

D. Basis of Accounting – Measurement Focus (*continued*)

**Revenues – Exchange and Non-Exchange Transactions (*continued*)**

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, and entitlements. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from the grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Eligibility requirements include timing requirements, which specify the year when the resources are to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

**Unearned Revenue**

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

Certain grants received that have not met eligibility requirements 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 a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, Fund Balance and Net Position

**Cash and Cash Equivalents**

The District’s cash and cash equivalents consist of cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

**Investments**

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

**Inventories**

Inventories are valued at average method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

**Capital Assets**

The accounting and reporting treatment applied to the capital assets associated with a fund is determined by its measurement focus. Capital assets are reported in the governmental activities column of the government-wide statement of net position, but are not reported in the fund financial statements.

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their acquisition value as of the date received. The District maintains a capitalization threshold of \$5,000. The District does not own any infrastructure as defined in GASB Statement No. 34. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset’s life are not capitalized. All reported capital assets, except for land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings	50 years
Site Improvements	7 – 30 years
Equipment	5 – 20 years

**Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "Due from other funds/Due to other funds." These amounts are eliminated in the governmental activities columns of the statement of net position.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, Fund Balance and Net Position (continued)

**Compensated Absences**

Accumulated unpaid employee vacation benefits are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide financial statements. 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 resource. These amounts are recorded in the fund from which the employees who have accumulated leave are paid.

Accumulated sick leave benefits are not recognized as liabilities of the District. The District's policy is to record sick leave as an operating expense in the period taken because such benefits do not vest, nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits when the employee retires.

**Accrued Liabilities and Long-Term Obligations**

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

**Premiums and Discounts**

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

**Deferred Outflows/Deferred Inflows of Resources**

In addition to assets, the District will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the District will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

**Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the defined benefit pension plans (the Plans) of the California State Teachers' Retirement System (CalSTRS) and the California Public Employees' Retirement System (CalPERS) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by the Plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, Fund Balance and Net Position (*continued*)

**Fund Balance**

Fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

*Nonspendable* - The nonspendable fund balance classification reflects amounts that are not in spendable form. Examples include inventory, prepaid items, the long-term portion of loans receivable, and nonfinancial assets held for resale. This classification also reflects amounts that are in spendable form but that are legally or contractually required to remain intact, such as the principal of a permanent endowment.

*Restricted* - The restricted fund balance classification reflects amounts subject to externally imposed and legally enforceable constraints. Such constraints may be imposed by creditors, grantors, contributors, or laws or regulations of other governments, or may be imposed by law through constitutional provisions or enabling legislation.

*Committed* - The committed fund balance classification reflects amounts subject to internal constraints self-imposed by formal action of the Governing Board. The constraints giving rise to committed fund balance must be imposed no later than the end of the reporting period. The actual amounts may be determined subsequent to that date but prior to the issuance of the financial statements. In contrast to restricted fund balance, committed fund balance may be redirected by the government to other purposes as long as the original constraints are removed or modified in the same manner in which they were imposed, that is, by the same formal action of the Governing Board.

*Assigned* - The assigned fund balance classification reflects amounts that the government *intends* to be used for specific purposes. Assignments may be established either by the Governing Board or by a designee of the governing body, and are subject to neither the restricted nor committed levels of constraint. In contrast to the constraints giving rise to committed fund balance, constraints giving rise to assigned fund balance are not required to be imposed, modified, or removed by formal action of the Governing Board. The action does not require the same level of formality and may be delegated to another body or official. Additionally, the assignment need not be made before the end of the reporting period, but rather may be made any time prior to the issuance of the financial statements.

*Unassigned* - In the General Fund only, the unassigned fund balance classification reflects the residual balance that has not been assigned to other funds and that is not restricted, committed, or assigned to specific purposes. However, deficits in any fund, including the General Fund that cannot be eliminated by reducing or eliminating amounts assigned to other purposes are reported as negative unassigned fund balance.

The District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

LANCASTER SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS, *continued*  
JUNE 30, 2016

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

F. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented in the financial statements. Interfund transfers are eliminated in the governmental activities columns of the statement of activities.

G. 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.

H. 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 1 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.

I. 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 Auditor-Controller bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

LANCASTER SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS, *continued*  
JUNE 30, 2016

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

J. New Accounting Pronouncements

**GASB Statement No. 72** – In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. This standard addresses accounting and financial reporting issues related to fair value measurements. The Statement is effective for periods beginning after June 15, 2015. The District has implemented GASB Statement No. 72 for the year ended June 30, 2016.

**GASB Statement No. 73** – In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This standard establishes requirements for defined benefit pensions that are not within the scope of GASB Statement 68 and amends certain provisions of GASB Statements 67 and 68. A portion of this Statement is effective for periods beginning after June 15, 2015. The District has implemented GASB Statement No. 73 for the year ended June 30, 2016.

**GASB Statement No. 75** – In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This standard's primary objective is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions. The Statement is effective for periods beginning after June 15, 2017. The District has not yet determined the impact on the financial statements.

**GASB Statement No. 80** – In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units – an Amendment of GASB Statement No. 14*. This standard's primary objective is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. The Statement is effective for periods beginning after June 15, 2016. The District has not yet determined the impact on the financial statements.

LANCASTER SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2016

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NOTE 2 – CASH AND INVESTMENTS

A. Summary of Cash and Investments

	Governmental Funds	Fiduciary Funds
Investment in county treasury	\$ 49,737,412	\$ 1,290,942
Cash on hand and in banks	1,176,912	229,212
Cash with fiscal agent	13,720	-
Cash in revolving fund	287,914	-
<b>Total cash and investments</b>	<b>\$ 51,215,958</b>	<b>\$ 1,520,154</b>

B. 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; collateralized mortgage obligations; and the County Investment Pool.

**Investment in County Treasury** – The District maintains substantially all of its cash in the County Treasury in accordance with *Education Code Section 41001*. The Los Angeles County Treasurer’s pooled investments are managed by the County Treasurer who reports on a monthly basis to the board of supervisors. In addition, the function of the County Treasury Oversight Committee is to review and monitor the County’s investment policy. The committee membership includes the Treasurer and Tax Collector, the Auditor-Controller, Chief Administrative Officer, Superintendent of Schools Representative, and a public member. The fair value of the District’s investment in the pool is 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.

LANCASTER SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2016

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NOTE 2 – CASH AND INVESTMENTS (continued)

C. General Authorizations

Except for investments by trustees of debt proceeds, the authority to invest District funds deposited with the county treasury is delegated to the County Treasurer and Tax Collector. Additional information about the investment policy of the County Treasurer and Tax Collector may be obtained from its website. The table below identifies the investment types permitted by California Government Code.

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

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Treasury. The District maintains a pooled investment with the County Treasury with a fair value of approximately \$51,087,969 and an amortized book value of \$51,028,354. The average weighted maturity for this pool is 608 days.

E. Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The investments in the County Treasury are not required to be rated. As of June 30, 2016, the pooled investments in the County Treasury were not rated.

LANCASTER SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, *continued*  
 JUNE 30, 2016

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NOTE 2 – CASH AND INVESTMENTS (continued)

F. Custodial Credit Risk – Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2016, the District's bank balance was not exposed to custodial credit risk.

G. Fair Value

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

Level 1 - Quoted prices (unadjusted) in active markets for identical assets.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, or other inputs that are observable, either directly or indirectly.

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

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

The District's fair value measurements at June 30, 2016 were as follows:

	<u>Uncategorized</u>
Investment in county treasury	\$ 51,087,969
<b>Total fair market value of investments</b>	<b>\$ 51,087,969</b>

LANCASTER SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2016

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2016 consisted of the following:

	General Fund	Building Fund	Non-Major Governmental Funds	Total Governmental Activities	Total Fiduciary
Federal Government					
Categorical aid	\$ 2,989,446	\$ -	\$ 1,793,798	\$ 4,783,244	\$ -
State Government					
Categorical aid	1,439,030	-	260,526	1,699,556	-
Lottery	1,326,419	-	-	1,326,419	-
Local Government					
Other local sources	167,283	39,770	107,618	314,671	835
<b>Total</b>	<b>\$ 5,922,178</b>	<b>\$ 39,770</b>	<b>\$ 2,161,942</b>	<b>\$ 8,123,890</b>	<b>\$ 835</b>

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016 was as follows:

	Balance July 01, 2015	Additions	Deletions	Balance June 30, 2016
<b>Governmental Activities</b>				
Capital assets not being depreciated				
Land	\$ 9,507,508	\$ -	\$ -	\$ 9,507,508
Construction in progress	4,030,176	2,664,159	-	6,694,335
<b>Total Capital Assets not Being Depreciated</b>	<b>13,537,684</b>	<b>2,664,159</b>	<b>-</b>	<b>16,201,843</b>
Capital assets being depreciated				
Land improvements	20,961,611	122,527	-	21,084,138
Buildings & improvements	187,186,371	244,252	-	187,430,623
Furniture & equipment	23,308,417	188,089	-	23,496,506
<b>Total Capital Assets Being Depreciated</b>	<b>231,456,399</b>	<b>554,868</b>	<b>-</b>	<b>232,011,267</b>
Less Accumulated Depreciation				
Land improvements	10,521,757	747,188	-	11,268,945
Buildings & improvements	65,167,546	3,669,255	-	68,836,801
Furniture & equipment	19,593,252	605,715	-	20,198,967
<b>Total Accumulated Depreciation</b>	<b>95,282,555</b>	<b>5,022,158</b>	<b>-</b>	<b>100,304,713</b>
<b>Governmental Activities</b>				
<b>Capital Assets, net</b>	<b>\$ 149,711,528</b>	<b>\$ (1,803,131)</b>	<b>\$ -</b>	<b>\$ 147,908,397</b>

LANCASTER SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS, *continued*  
JUNE 30, 2016

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**NOTE 4 – CAPITAL ASSETS, *continued***

Depreciation expense was allocated to governmental functions as follows:

<b>Governmental Activities</b>	
Instruction	\$ 3,365,378
Instructional supervision and administration	104,499
Instructional library, media, and technology	41,378
School site administration	416,844
Home-to-school transportation	384,480
Food services	134,761
Centralized data processing	29,932
Plant services	363,836
Ancillary services	12
Community services	17,914
Enterprise activities	163,124
Total depreciation expense	<u>\$ 5,022,158</u>

**NOTE 5 – INTERFUND TRANSACTIONS**

**A. Interfund Receivables/Payables (Due From/Due To)**

Individual interfund receivable and payable balances at June 30, 2016 consisted of the Non-Major Child Development Fund owing the General Fund \$50,000 to pay back a temporary loan.

LANCASTER SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2016

NOTE 5 – INTERFUND TRANSACTIONS (continued)

B. Operating Transfers

Interfund transfers for the year ended June 30, 2016 consisted of the following:

Interfund Transfers Out	Interfund Transfers In	
	Non-Major Governmental Funds	Total
General Fund	\$ 6,600,079	\$ 6,600,079
Non-Major Governmental Funds	500,000	500,000
<b>Total Interfund Transfers</b>	<b>\$ 7,100,079</b>	<b>\$ 7,100,079</b>

General fund transferred to Child Development Fund for temporary borrowing.	\$	79
General fund transferred to Deferred Maintenance Fund for current year contribution.		1,500,000
General Fund transferred to Capital Facilities Fund for temporary borrowing.		200,000
General Fund transferred to Special Reserve Fund for Capital Outlay Projects for future projects.		4,900,000
Debt Service Fund for Blended Component Units transferred to Special Reserve Fund for Capital Outlay Projects for future projects.		500,000
<b>Total</b>	<b>\$</b>	<b>7,100,079</b>

NOTE 6 – ACCRUED LIABILITIES

Accrued liabilities at June 30, 2016 consisted of the following:

	Non-Major Governmental		Total Governmental		Total Fiduciary
	General Fund	Building Fund	Funds	District-Wide Activities	
Payroll	\$ 1,480,327	\$ -	\$ 72,895	\$ -	\$ 1,553,222
Construction	-	79,467	-	-	79,467
Vendors payable	6,477,145	-	299,976	-	6,777,121
Unmatured interest	-	-	-	654,539	654,539
<b>Total</b>	<b>\$ 7,957,472</b>	<b>\$ 79,467</b>	<b>\$ 372,871</b>	<b>\$ 654,539</b>	<b>\$ 9,064,349</b>

NOTE 7 – TAX AND REVENUE ANTICIPATION NOTES (TRANS)

On October 19, 2015, the District issued \$10,930,000 of TRANS bearing interest at 2.00 percent. The notes were issued to supplement cash flows. Interest and principal are due and payable on June 30, 2016. By June 30, 2016, the District had paid off the notes..

**LANCASTER SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2016**

**NOTE 8 – LONG-TERM DEBT**

A schedule of changes in long-term debt for the year ended June 30, 2016 consisted of the following:

	Balance			Balance		Balance Due
	July 01, 2015	Additions	Deductions	June 30, 2016	In One Year	
<b>Governmental Activities</b>						
General obligation bonds	\$ 61,671,890	\$ 1,646,974	\$ 2,415,000	\$ 60,903,864	\$	2,176,646
Unamortized premium	548,839	-	79,537	469,302		79,537
Total general obligation bonds	62,220,729	1,646,974	2,494,537	61,373,166		2,256,183
Certificates of participation	8,010,000	-	140,000	7,870,000		155,000
Capital leases	376,531	-	376,531	-		-
Early retirement incentive	865,500	927,000	445,000	1,347,500		447,500
Compensated absences	622,943	15,960	-	638,903		-
Net OPEB obligation	12,249,480	2,475,798	-	14,725,278		-
Net pension liability	83,498,937	22,597,671	-	106,096,608		-
<b>Total</b>	<b>\$ 167,844,120</b>	<b>\$ 27,663,403</b>	<b>\$ 3,456,068</b>	<b>\$ 192,051,455</b>	<b>\$</b>	<b>2,858,683</b>

- Payments for general obligation bonds are made in the Bond Interest and Redemption Fund.
- Payments on certificates of participation are made in the Debt Service Fund for Blended Component Units.
- Payments for capital lease obligations are made in the Capital Facilities Fund.
- Payments for early retirement incentive are made in the General Fund.
- Payments for compensated absences are typically liquidated in the General Fund and the Non-Major Governmental Funds.

**A. Bonded Debt**

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds			Bonds
					Outstanding July 01, 2015	Additions	Deductions	Outstanding June 30, 2016
1999 Election - Series A	June 1, 1999	February 1, 2024	3.20 - 5.40%	\$ 17,499,669	\$ 8,691,206	\$ 537,664	\$ -	\$ 9,228,870
1999 Election - Series 2001	June 21, 2001	July 1, 2026	4.00 - 5.63%	11,500,262	19,100,684	1,109,310	885,000	19,324,994
2005 Issue - Refunding Bond	July 21, 2009	August 1, 2017	3.50 - 5.00%	9,805,000	4,370,000	-	1,335,000	3,035,000
2012 Election - Series 2013A	March 19, 2013	August 1, 2038	4.00 - 5.00%	17,205,000	17,205,000	-	-	17,205,000
2012 Election - Series 2013B	March 19, 2013	August 1, 2031	1.00 - 4.38%	12,305,000	12,305,000	-	195,000	12,110,000
					<u>\$ 61,671,890</u>	<u>\$ 1,646,974</u>	<u>\$ 2,415,000</u>	<u>\$ 60,903,864</u>

On June 1, 1999 and June 21, 2001, the District issued \$17,499,669 in current interest and capital appreciation General Obligation Bonds (Election of 1999, series 1999) and \$11,500,262 in current interest and capital appreciation General Obligation Bonds (Election of 1999, series 2001), respectively. The bonds represent general obligations of the District Payable solely from ad valorem property taxed levied and collected by the County of Los Angeles. Interest rates range from 3.20 to 5.63 percent.

LANCASTER SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2016

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NOTE 8 – LONG-TERM DEBT (continued)

A. Bonded Debt (continued)

On July 21, 2009 the District issued \$9,805,000 of 2001 General Obligation (GO) Refunding Bonds. The bonds consist of serial bonds bearing fixed interest rates ranging from 3.50 to 5.00 percent with annual maturities from August 2010 to August 2017. The net proceeds of \$9,982,886 (after issuance costs of \$307,716, plus premium of \$485,601) were used to advance refund \$9,650,000 of the District’s outstanding election and series 1999 GO Bonds. The net proceeds were deposited into an irrevocable trust with an escrow agent to provide for future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased, and the related liability for the bonds has been removed from the District’s liabilities. Amounts paid to the refunded bond escrow agent in excess of the outstanding debt at the time of payment are recorded as deferred charges on refunding on the statement of net position and are amortized to administrative expense over the life of the liability. Deferred charges on refunding remain to be amortized.

On November 6, 2012, the voters authorized at election the issuance and sale of \$63,000,000 of general obligation bonds. On March 19, 2014, the District issued the first two series against the authorization, Series 2013A and 2013B. Series 2013A was issued in the amount of \$17,205,000 in current interest term bonds with interest ranging between 4.00% and 5.00%. Series 2013B was issued in the amount of \$12,305,000 in current interest serial and term bonds with interest ranging between 1.00% and 4.375%. The bonds were issued to acquire, expand and construct school facilities throughout the District in accordance with the voter authorization, prepay the District’s 2007 Refunding Project Certificates of Participation, prepay a portion of the District’s 2008 Refunding Project Certificates of Participation, and pay costs of issuance on the bonds.

B. Debt Service Requirements to Maturity – Bonds

The bonds mature through 2039 as follows:

Year Ended June 30,	Principal	Interest	Total
2017	\$ 2,176,646	\$ 1,856,352	\$ 4,032,998
2018	2,417,836	1,941,507	4,359,343
2019	1,506,118	3,247,190	4,753,308
2020	1,437,185	3,483,988	4,921,173
2021	1,522,594	3,725,462	5,248,056
2022 - 2026	9,372,250	22,931,253	32,303,503
2027 - 2031	7,375,337	9,301,101	16,676,438
2032 - 2036	10,015,000	2,948,659	12,963,659
2037 - 2039	8,555,000	531,700	9,086,700
Accretion	16,525,898	(16,525,898)	-
Total	\$ 60,903,864	\$ 33,441,314	\$ 94,345,178

LANCASTER SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2016

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NOTE 8 – LONG-TERM DEBT (continued)

C. Certificates of Participation (COPs) and Lease Revenue Bonds

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding			Bonds Outstanding
					July 01, 2015	Additions	Deductions	June 30, 2016
Series 2006 Project	April 27, 2006	September 1, 2031	3.45 - 4.85%	\$3,750,000	\$ 2,920,000	\$ -	\$ 120,000	\$ 2,800,000
2008 Refunding Project	June 16, 2008	April 1, 2036	3.00 - 4.90%	9,745,000	5,090,000	-	20,000	5,070,000
					<u>\$ 8,010,000</u>	<u>\$ -</u>	<u>\$ 140,000</u>	<u>\$ 7,870,000</u>

On December 1, 1997, the Lancaster School Facilities Corporation (Corporation) issued the 1997 COPs in the amount of \$19,492,425 to prepay outstanding COPs and improvement of school facilities. The District entered into an agreement with the Corporation to make base rental payments to the Corporation to service the debt of the COPs. The COPs were early refunded using proceeds received from the issuance of the Series 2013B General Obligation Bonds. The net proceeds were deposited into an irrevocable trust with an escrow agent to provide for future debt service payments on the refunded COPs. As a result, the refunded COPs are considered to be defeased, and the related liability for the bonds has been removed from the District’s liabilities. Amounts paid to the refunded COP escrow agent in excess of the outstanding debt at the time of payment are recorded as deferred charges on refunding on the statement of net position and are amortized to administrative expense over the life of the liability.

On June 16, 2008, the Corporation issued current interest \$9,745,000 to pay off the current interest portion of the 1997 COP bonds. The District entered into an agreement with the Corporation to make rental payment to the Corporation to service the debt of the COPs. A portion of the outstanding COPs were early refunded using proceeds received from the issuance of the Series 2013A General Obligation Bonds. The net proceeds were deposited into an irrevocable trust with an escrow agent to provide for future debt service payments on the refunded COPs. As a result, the refunded COPs are considered to be defeased, and the related liability for the COPs has been removed from the District’s liabilities. Amounts paid to the refunded COP escrow agent in excess of the outstanding debt at the time of payment are recorded as deferred charges on refunding on the statement of net position and are amortized to administrative expense over the life of the liability.

On April 27, 2006, the Pacific Valleys Schools Financing Authority (Authority) issued \$3,750,000 in current interest Lease Revenue Bonds to service the construction of additional school facilities by the Lancaster School District. The bonds are authorized under the Mark-Roos Local Bond Pooling Act of 1985. The Authority entered into an agreement with the District to provide base rental payments in the amount of the debt service payments of the bonds.

LANCASTER SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2016

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NOTE 8 – LONG-TERM DEBT (continued)

C. Debt Service Requirements to Maturity – COPs and Lease Revenue Bonds (continued)

The COPs and lease revenue bonds mature through 2036 as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 155,000	\$ 362,908	\$ 517,908
2018	175,000	356,175	531,175
2019	195,000	348,459	543,459
2020	215,000	339,801	554,801
2021	235,000	330,176	565,176
2022 - 2026	1,510,000	1,469,825	2,979,825
2027 - 2031	2,230,000	1,052,928	3,282,928
2032 - 2036	3,155,000	461,905	3,616,905
Total	<u>\$ 7,870,000</u>	<u>\$ 4,722,177</u>	<u>\$ 12,592,177</u>

D. Capital Leases

The District purchased relocatable buildings valued at \$5,973,329 through a capital lease where title will pass to the District at the conclusion of the lease payments. The District paid the remaining balance of \$376,531 as of June 30, 2016. There is no outstanding balance on this capital lease as of June 30, 2016.

E. Annuity Payable

The District has annuities payable with American General for retirees whereby payments will be made annually as follows:

<u>Year Ended June 30,</u>	<u>Lease Payment</u>
2017	\$ 447,500
2018	357,500
2019	269,500
2020	183,000
2021	90,000
Total	<u>\$ 1,347,500</u>

F. Compensated Absences

Total unpaid employee compensated absences as of June 30, 2016 amounted to \$638,903. This amount is included as part of long-term liabilities in the government-wide financial statements.

G. Net Pension Liability

The District's beginning net pension liability was \$83,498,937 and increased by \$22,597,671 during the year ended June 30, 2016. The ending net pension liability at June 30, 2016 was \$106,096,608. See Note 11 for additional information regarding the net pension liability.

LANCASTER SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2016

NOTE 9 – FUND BALANCES

Fund balances were composed of the following elements at June 30, 2016:

	General Fund	Building Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>Non-spendable</b>				
Revolving cash	\$ 15,000	\$ -	\$ 272,915	\$ 287,915
Stores inventory	-	-	200,833	200,833
Prepaid expenditures	21,319	-	-	21,319
Total non-spendable	36,319	-	473,748	510,067
<b>Restricted</b>				
Educational programs	2,326,939	-	122,605	2,449,544
Capital projects	-	12,198,263	6,617,693	18,815,956
Debt service	-	-	4,472,259	4,472,259
All others	-	-	4,397,161	4,397,161
Total restricted	2,326,939	12,198,263	15,609,718	30,134,920
<b>Committed</b>				
Deferred Maintenance	-	-	1,544,640	1,544,640
Total committed	-	-	1,544,640	1,544,640
<b>Assigned</b>				
Transportation Cap/Bus Replace	400,000	-	-	400,000
Textbook Adoption	600,000	-	-	600,000
Technology Acquisition and Replacement	1,000,000	-	-	1,000,000
Lottery - Textbook Adoption	1,200,000	-	-	1,200,000
Equipment Replacement	-	-	30,661	30,661
Relocatable Payments	-	-	875,323	875,323
Total assigned	3,200,000	-	905,984	4,105,984
<b>Unassigned</b>				
Reserve for economic uncertainties	14,815,405	-	-	14,815,405
Total unassigned	14,815,405	-	-	14,815,405
<b>Total</b>	<b>\$ 20,378,663</b>	<b>\$ 12,198,263</b>	<b>\$ 18,534,090</b>	<b>\$ 51,111,016</b>

The District is committed to maintaining a prudent level of financial resources to protect against the need to reduce service levels because of temporary revenue shortfalls or unpredicted expenditures. The District's Minimum Fund Balance Policy requires a Reserve for Economic Uncertainties, consisting of unassigned amounts, equal to no less than three percent of General Fund expenditures and other financing uses.

LANCASTER SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2016

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NOTE 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

A. Plan Description and Contribution Information

The Postemployment Benefit Plan (the “Plan”) is a single-employer defined benefit healthcare plan administered by the Lancaster School District. The Plan offers the following benefits by bargaining unit:

	<u>Certificated</u>	<u>Classified</u>	<u>Management</u>
Benefit types provided	Medical only	Medical only	Medical only
Duration of benefits	To age 65	To age 65	To age 65
Required service	10 years*	10 years*	10 years*
Minimum age	55	50**	55
Dependent coverage	Yes	Yes	Yes
District contribution %	100%	100%	100%
District cap	90% of the cap for active employees	90% of the cap for active employees	Composite medical rate

\*Full time service in the 15 years preceding retirement

\*\*Employees retiring prior to age 55 are entitled to 50% of the cap for a maximum of five years

Membership of the plan consisted of the following:

Retirees and beneficiaries receiving benefits	122
Active plan members	1,311
Total*	1,433

Number of participating employers	1
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\*As of April 1, 2015 actuarial study

B. Funding Policy

The contribution requirements of Plan members and the District are established and may be amended by the District and District’s bargaining units. The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2016, the District contributed \$1,226,183 to the Plan, all of which was used for current premiums.

As of June 30, 2016, the District has not established a plan or equivalent that contains an irrevocable transfer of assets dedicated to providing benefits to retirees in accordance with the terms of the plan and that are legally protected from creditors.

LANCASTER SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2016

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NOTE 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (continued)

C. Annual OPEB Cost and Net OPEB Obligation

The District’s annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL) (or funding excess) over a period not to exceed 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	\$	3,831,611
Interest on net OPEB obligation		489,979
Adjustment to annual required contribution		(619,609)
Annual OPEB cost (expense)		<u>3,701,981</u>
Contributions made		<u>(1,226,183)</u>
Increase (decrease) in net OPEB obligation		2,475,798
Net OPEB obligation, beginning of the year		<u>12,249,480</u>
Net OPEB obligation, end of the year	\$	<u>14,725,278</u>

The annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the year ended June 30, 2016 and the preceding two years were as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
2016	\$ 3,701,981	33%	\$ 14,725,278
2015	\$ 3,727,714	35%	\$ 12,249,480
2014	\$ 2,939,150	47%	\$ 9,817,852

LANCASTER SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2016

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NOTE 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (continued)

D. Funded Status and Funding Progress

The funded status of the plan as of the most recent actuarial evaluation consists of the following:

Actuarial Valuation Date	Actuarial Valuation of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
April 1, 2015	\$ -	\$ 31,930,555	\$ 31,930,555	0%	\$ 73,972,523	43%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, investment returns, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress, presented as required supplementary information following the notes to financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

E. Actuarial Methods and Assumptions

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

In the April 1, 2015, actuarial valuation, the “entry age normal” actuarial cost method was used. The actuarial assumptions included an inflation rate of 2.75 percent per year; a 4.5 percent investment return on plan assets. For medical costs a 4 percent trend rate was used based on the conclusion that, while medical trend will continue to be cyclical, the average increase over time cannot continue to outstrip general inflation by a wide margin. Finally, payroll is assumed to increase 3 percent per year. A level percentage of payroll method was used to allocate amortization cost by year. A closed 30 year amortization period was used for the initial UAAL. An open 30 year amortization period was used for any residual UAAL.

LANCASTER SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2016

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**NOTE 11 – PENSION PLANS**

Qualified employees are covered under multiple-employer contributory retirement plans maintained by agencies of the State of California. Certificated 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 reported its proportionate share of the net pension liabilities, pension expense, deferred outflow of resources, and deferred inflow of resources for each of the above plans as follows:

	Net pension liability	Deferred outflows related to pensions	Deferred inflows related to pensions	Pension expense
STRS Pension	\$ 80,580,876	\$ 12,160,675	\$ 7,915,177	\$ 7,158,761
PERS Pension	25,515,732	4,858,766	2,905,625	2,499,392
<b>Total</b>	<b>\$ 106,096,608</b>	<b>\$ 17,019,441</b>	<b>\$ 10,820,802</b>	<b>\$ 9,658,153</b>

**California State Teachers' Retirement System (CalSTRS)**

**Plan Description**

The District contributes to the California State Teachers' Retirement System (CalSTRS); a cost-sharing multiple employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 7919 Folsom Blvd., Sacramento, CA 95826.

**Benefits provided**

The CalSTRS defined benefit plan has two benefit formulas:

CalSTRS 2% at 60: Members first hired on or before December 31, 2012, to perform service that could be creditable to CalSTRS

CalSTRS 2% at 62: Members first hired on or after January 1, 2013, to perform service that could be creditable to CalSTRS

***CalSTRS 2% at 60***

CalSTRS 2% at 60 members are eligible for normal retirement at age 60, with a minimum of five years of credited service. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service. Early retirement options are available at age 55 with five years of credited service or as early as age 50 with 30 years of credited service. The age factor for retirements after age 60 increases with each quarter year of age to 2.4 percent at age 63 or older. Members who have 30 years or more of credited service receive an additional increase of up to 0.2 percent to the age factor, known as the career factor. The maximum benefit with the career factor is 2.4 percent of final compensation.

LANCASTER SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2016

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NOTE 11 – PENSION PLANS (continued)

California State Teachers’ Retirement System (CalSTRS) (continued)

**Benefits provided (continued)**

*CalSTRS 2% at 62*

CalSTRS 2% at 62 members are eligible for normal retirement at age 62, with a minimum of five years of credited service. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service. An early retirement option is available at age 55. The age factor for retirement after age 62 increases with each quarter year of age to 2.4 percent at age 65 or older.

**Contributions**

Active plan CalSTRS 2% at 60 and 2% at 62 members are required to contribute 9.20% and 8.56% of their salary for fiscal year 2016, respectively, and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2016 was 10.73% of annual payroll. The contribution requirements of the plan members are established by state statute. Contributions to the plan from the District were \$6,649,506 for the year ended June 30, 2016.

**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 \$3,574,237 to CalSTRS (7.126% of 2013-14 creditable compensation subject to CalSTRS).

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

At June 30, 2016, 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:

District's proportionate share of the net pension liability	\$ 80,580,876
State's proportionate share of the net pension liability associated with the District	42,618,285
Total	\$ 123,199,161

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2014, and rolling forward the total pension liability to June 30, 2015. 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. At June 30, 2015, the District’s proportion was 0.120 percent, which was an increase of 0.009 percent from its proportion measured as of June 30, 2014.

LANCASTER SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2016

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NOTE 11 – PENSION PLANS (continued)

California State Teachers’ Retirement System (CalSTRS) (continued)

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)**

For the year ended June 30, 2016, the District recognized pension expense of \$7,158,761. In addition, the District recognized pension expense and revenue of \$3,300,386 for support provided by the State. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between projected and actual earnings on plan investments	\$ -	\$ 6,568,651
Differences between expected and actual experience	-	1,346,526
Changes in proportion and differences between District contributions and proportionate share of contributions	5,511,169	-
District contributions subsequent to the measurement date	6,649,506	-
	<u>\$ 12,160,675</u>	<u>\$ 7,915,177</u>

The \$6,649,506 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
2017	\$ 918,528	\$ 1,866,584
2018	918,528	1,866,584
2019	918,528	1,866,584
2020	918,528	1,866,584
2021	918,528	224,421
2022	918,529	224,420
	<u>\$ 5,511,169</u>	<u>\$ 7,915,177</u>

LANCASTER SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2016

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NOTE 11 – PENSION PLANS (continued)

California State Teachers’ Retirement System (CalSTRS) (continued)

**Actuarial assumptions**

The total pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2014, and rolling forward the total pension liability to June 30, 2015 using the following actuarial assumptions, applied to all periods included in the measurement:

Consumer Price Inflation	3.00%
Investment Yield*	7.60%
Wage Inflation	3.75%

\* Net of investment expenses, but gross of administrative expenses.

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 actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2006–June 30, 2010.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best-estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant (Pension Consulting Alliance - PCA) as an input to the process. Based on the model from CalSTRS consulting actuary’s (Milliman) investment practice, a best estimate range was determined by assuming the portfolio is re-balanced annually and that annual returns are lognormally distributed and independent from year to year to develop expected percentiles for the long-term distribution of annualized returns. The assumed asset allocation by PCA 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:

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-Term* Expected Real Rate of Return</u>
Global Equity	47%	4.50%
Private Equity	12%	6.20%
Real Estate	15%	4.35%
Inflation Sensitive	5%	3.20%
Fixed Income	20%	0.20%
Cash/Liquidity	1%	0.00%
	<u>100%</u>	

\* 10-year geometric average

LANCASTER SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2016

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NOTE 11 – PENSION PLANS (continued)

California State Teachers’ Retirement System (CalSTRS) (continued)

**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 that contributions from plan members and employers will be made at statutory contribution rates in accordance with the rate increases per AB 1469. 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 occur midyear. Based on those assumptions, the Plan’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 the total pension liability.

**Sensitivity of the District’s proportionate share of the net pension liability to changes in the discount rate**

The following presents the District’s proportionate share of the net pension liability calculated using the discount rate of 7.60 percent, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.60 percent) or 1-percentage-point higher (8.60 percent) than the current rate:

	<b>1% Decrease (6.60%)</b>	<b>Current Discount Rate (7.60%)</b>	<b>1% Increase (8.60%)</b>
District's proportionate share of the net pension liability	\$ 121,670,850	\$ 80,580,876	\$ 46,431,791

**Pension plan fiduciary net position**

Detailed information about the pension plan’s fiduciary net position is available in the separately issued CalSTRS financial report.

**NOTE 11 – PENSION PLANS (continued)**

**California Public Employees' Retirement System (CalPERS)**

**Plan Description**

The District contributes to the School Employer 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. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees' Retirement Laws. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95811.

**Benefits provided**

The benefits for the defined benefit plan are based on members' years of service, age, final compensation, and benefit formula. Benefits are provided for disability, death, and survivors of eligible members or beneficiaries. Members become fully vested in their retirement benefits earned to date after five years of credited service.

**Contributions**

Active plan members who entered into the plan prior to January 1, 2013, are required to contribute 7.0% of their salary. The California Public Employees' Pension Reform Act (PEPRA) specifies that new members entering into the plan on or after January 1, 2013, shall pay the higher of fifty percent of normal costs or 6.0% of their salary. Additionally, for new members entering the plan on or after January 1, 2013, the employer is prohibited from paying any of the employee contribution to CalPERS unless the employer payment of the member's contribution is specified in an employment agreement or collective bargaining agreement that expires after January 1, 2013.

The District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2016 was 11.847% of annual payroll. Contributions to the plan from the District were \$2,549,964 for the year ended June 30, 2016.

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

At June 30, 2016, the District reported a liability of \$25,515,732 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2014, and rolling forward the total pension liability to June 30, 2015. 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. At June 30, 2015, the District's proportion was 0.173 percent, which was an increase of 0.007 percent from its proportion measured as of June 30, 2014.

LANCASTER SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2016

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NOTE 11 – PENSION PLANS (continued)

California Public Employees’ Retirement System (CalPERS) (continued)

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)**

For the year ended June 30, 2016, the District recognized pension expense of \$2,499,392. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between projected and actual earnings on plan investments	\$ -	\$ 873,680
Differences between expected and actual experience	1,458,261	-
Changes in assumptions	-	1,567,758
Changes in proportion and differences between District contributions and proportionate share of contributions	850,541	464,187
District contributions subsequent to the measurement date	2,549,964	-
	<u>\$ 4,858,766</u>	<u>\$ 2,905,625</u>

The \$2,549,964 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
2017	\$ 796,139	\$ 913,755
2018	796,139	913,755
2019	716,524	859,695
2020	-	218,420
	<u>\$ 2,308,802</u>	<u>\$ 2,905,625</u>

LANCASTER SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS, continued  
JUNE 30, 2016

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NOTE 11 – PENSION PLANS (continued)

California Public Employees’ Retirement System (CalPERS) (continued)

**Actuarial assumptions**

The total pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2014, and rolling forward the total pension liability to June 30, 2015 using the following actuarial assumptions, applied to all periods included in the measurement:

Consumer Price Inflation	2.75%
Investment Yield*	7.65%
Wage Inflation	Varies by Entry Age and Service

\* Net of investment expenses, but gross of administrative expenses.

CalPERS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are derived using CalPERS’ membership data for all funds. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.

The actuarial assumptions used in the June 30, 2014, valuation were based on the results of an actuarial experience study for the period from 1997 to 2011.

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. In determining the long-term expected rate of return, both short-term and long-term market return expectations as well as the expected pension fund cash flows were taken into account. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds’ asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 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.

LANCASTER SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2016

NOTE 11 – PENSION PLANS (continued)

California Public Employees’ Retirement System (CalPERS) (continued)

**Actuarial assumptions (continued)**

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

Asset Class	Assumed Asset Allocation	Real Return Years 1-10*	Real Return Years 11+**
Global Equity	51%	5.25%	5.71%
Global Fixed Income	19%	0.99%	2.43%
Inflation Sensitive	6%	0.45%	3.36%
Private Equity	10%	6.83%	6.95%
Real Estate	10%	4.50%	5.13%
Infrastructure and Forestland	2%	4.50%	5.09%
Liquidity	2%	-0.55%	-1.05%
	100%		

\* An expected inflation of 2.5% used for this period  
 \*\* An expected inflation of 3.0% used for this period

**Discount rate**

The discount rate used to measure the total pension liability was 7.65 percent. A projection of the expected benefit payments and contributions was performed to determine if assets would run out. The test revealed the assets would not run out. Therefore the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for the Schools Pool. The results of the crossover testing for the Schools Pool are presented in a detailed report that can be obtained at CalPERS’ website.

**Sensitivity of the District’s proportionate share of the net pension liability to changes in the discount rate**

The following presents the District’s proportionate share of the net pension liability calculated using the discount rate of 7.65 percent, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.65 percent) or 1-percentage-point higher (8.65 percent) than the current rate:

	1% Decrease (6.65%)	Current Discount Rate (7.65%)	1% Increase (8.65%)
District's proportionate share of the net pension liability	\$ 41,528,980	\$ 25,515,732	\$ 12,199,647

**Pension plan fiduciary net position**

Detailed information about the pension plan’s fiduciary net position is available in the separately issued CalPERS financial report.

**NOTE 12 – COMMITMENTS AND CONTINGENCIES**

**A. 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, 2016.

**B. Litigation**

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2016.

**NOTE 13 – PARTICIPATION IN JOINT POWERS AUTHORITIES**

The District is a member of two joint powers authorities (JPAs). The first is the Antelope Valley Schools Transportation Agency (AVSTA) to provide student transportation services, and the other is the Self-Insurance Risk Management Authority (SIRMA) to provide liability and property insurance. The relationship is such that the JPAs are not component units of the District for financial reporting purposes.

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

**NOTE 14 – DEFERRED AMOUNT ON REFUNDING**

Pursuant to GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, the District recognized deferred inflows of resources in the District-wide financial statements. The deferred inflow of resources pertains to the difference in the carrying value of the refunded debt and its reacquisition price (deferred amount on refunding). Previous financial reporting standards require this to be presented as part of the District's long-term debt. This deferred inflow of resources is recognized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the new debt, whichever is shorter. At June 30, 2016, the deferred amount on refunding was \$433,144.

**NOTE 15 – SUBSEQUENT EVENT**

On May 17, 2016, the District issued \$15,000,000 of Tax and Revenue Anticipation Notes (TRANS) bearing interest at 2.00 percent. The notes were issued to supplement cash flows. Interest and principal are due and payable on June 30, 2017.

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**REQUIRED SUPPLEMENTARY  
INFORMATION**

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**LANCASTER SCHOOL DISTRICT  
GENERAL FUND – BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2016**

	Budgeted Amounts		Actual* (Budgetary Basis)	Variances - Final to Actual
	Original	Final		
<b>REVENUES</b>				
LCFF sources	\$ 118,285,745	\$ 118,415,017	\$ 118,266,689	\$ (148,328)
Federal sources	7,815,643	10,038,534	9,286,477	(752,057)
Other state sources	11,958,820	12,060,970	12,542,190	481,220
Other local sources	7,532,552	7,648,303	8,527,112	878,809
<b>Total Revenues</b>	<b>145,592,760</b>	<b>148,162,824</b>	<b>148,622,468</b>	<b>459,644</b>
<b>EXPENDITURES</b>				
Certificated salaries	60,933,400	61,689,911	63,158,532	(1,468,621)
Classified salaries	20,485,898	20,400,085	19,703,096	696,989
Employee benefits	30,938,855	30,887,892	30,979,159	(91,267)
Books and supplies	10,966,992	12,035,958	7,239,584	4,796,374
Services and other operating expenditures	12,490,926	15,105,918	13,052,629	2,053,289
Capital outlay	170,000	1,227,711	163,248	1,064,463
Other outgo				
Excluding transfers of indirect costs	1,000,000	1,000,000	1,771,014	(771,014)
Transfers of indirect costs	(315,000)	(351,308)	(459,995)	108,687
<b>Total Expenditures</b>	<b>136,671,071</b>	<b>141,996,167</b>	<b>135,607,267</b>	<b>6,388,900</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>8,921,689</b>	<b>6,166,657</b>	<b>13,015,201</b>	<b>6,848,544</b>
<b>Other Financing Sources (Uses)</b>				
Transfers out	(1,000,000)	(2,000,000)	(6,600,079)	(4,600,079)
<b>Net Financing Sources (Uses)</b>	<b>(1,000,000)</b>	<b>(2,000,000)</b>	<b>(6,600,079)</b>	<b>(4,600,079)</b>
<b>NET CHANGE IN FUND BALANCE</b>				
<b>Fund Balance - Beginning</b>	<b>13,963,541</b>	<b>13,963,541</b>	<b>13,963,541</b>	<b>-</b>
<b>Fund Balance - Ending</b>	<b>\$ 21,885,230</b>	<b>\$ 18,130,198</b>	<b>\$ 20,378,663</b>	<b>\$ 2,248,465</b>

\* The actual amounts reported on this schedule do not agree with the amounts reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance for the following reason:

- On behalf payments of \$3,574,237 are not included in the actual revenues and expenditures reported in this schedule.

**LANCASTER SCHOOL DISTRICT  
 SCHEDULE OF FUNDING PROGRESS  
 FOR THE YEAR ENDED JUNE 30, 2016**

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<b>Actuarial Valuation Date</b>	<b>Actuarial Valuation of Assets</b>	<b>Actuarial Accrued Liability (AAL)</b>	<b>Unfunded AAL (UAAL)</b>	<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>UAAAL as a Percentage of Covered Payroll</b>
April 1, 2015	\$ -	\$ 31,930,555	\$ 31,930,555	0%	\$ 73,972,523	43%
April 1, 2013	\$ -	\$ 25,965,818	\$ 25,965,818	0%	\$ 66,731,449	39%
February 1, 2011	\$ -	\$ 27,278,230	\$ 27,278,230	0%	\$ 66,322,802	41%

See accompanying note to required supplementary information.

**LANCASTER SCHOOL DISTRICT**  
**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY -**  
**CALSTRS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

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	<u>June 30, 2016</u>	<u>June 30, 2015</u>
District's proportion of the net pension liability	0.120%	0.111%
District's proportionate share of the net pension liability	\$ 80,580,876	\$ 64,695,681
States's proportionate share of the net pension liability associated with the District	42,618,285	39,066,040
Total	<u>\$ 123,199,161</u>	<u>\$ 103,761,721</u>
District's covered-employee payroll	\$ 61,971,165	\$ 54,687,568
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	130.0%	118.3%
Plan fiduciary net position as a percentage of the total pension liability.	76.5%	76.5%

See accompanying note to required supplementary information.

**LANCASTER SCHOOL DISTRICT**  
**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY -**  
**CALPERS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

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	<u>June 30, 2016</u>	<u>June 30, 2015</u>
District's proportion of the net pension liability	0.173%	0.166%
District's proportionate share of the net pension liability	\$ 25,515,732	\$ 18,803,266
District's covered-employee payroll	\$ 21,524,133	\$ 19,284,955
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	118.5%	97.5%
Plan fiduciary net position as a percentage of the total pension liability.	83.4%	83.4%

See accompanying note to required supplementary information.

**LANCASTER SCHOOL DISTRICT  
SCHEDULE OF DISTRICT CONTRIBUTIONS - CALSTRS  
FOR THE YEAR ENDED JUNE 30, 2016**

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	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Contractually required contribution	\$ 6,649,506	\$ 4,800,734
Contributions in relation to the contractually required contribution*	(6,649,506)	(4,800,734)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 61,971,165	\$ 54,687,568
Contributions as a percentage of covered-employee payroll	10.73%	8.78%

\*Amounts do not include on behalf contributions

**LANCASTER SCHOOL DISTRICT  
SCHEDULE OF DISTRICT CONTRIBUTIONS - CALPERS  
FOR THE YEAR ENDED JUNE 30, 2016**

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	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Contractually required contribution	\$ 2,549,964	\$ 2,270,032
Contributions in relation to the contractually required contribution	(2,549,964)	(2,270,032)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 21,524,133	\$ 19,284,955
Contributions as a percentage of covered-employee payroll	11.85%	11.77%

See accompanying note to required supplementary information.

**LANCASTER SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2016**

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**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, the District's proportionate share (amount) of the collective net pension liability as a percentage of the employer's covered-employee payroll, and the pension plan's fiduciary net position as a percentage of the total pension liability.

**Schedule of District 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.

**LANCASTER SCHOOL DISTRICT**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION, continued**  
**FOR THE YEAR ENDED JUNE 30, 2016**

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**NOTE 2 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

For the year ended June 30, 2016, the District incurred the following excesses of expenditures over appropriations in individual major funds presented in the Budgetary Comparison Schedule by major object code:

	<b>Expenditures and Other Uses</b>		
	<b>Budget</b>	<b>Actual</b>	<b>Excess</b>
General Fund			
Certificated salaries	\$ 61,689,911	\$ 63,158,532	\$ 1,468,621
Employee benefits	\$ 30,887,892	\$ 30,979,159	\$ 91,267
Other outgo			
Excluding transfers of indirect costs	\$ 1,000,000	\$ 1,771,014	\$ 771,014

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**SUPPLEMENTARY  
INFORMATION**

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**LANCASTER SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2016**

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster</u>	<u>CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
U. S. DEPARTMENT OF EDUCATION:			
<i>Passed through California Department of Education:</i>			
Title I, Part A, Basic Grants Low -Income and Neglected	84.010	14329	\$ 4,551,478
Title I, Migrant Education	84.011	14838	123,472
Title II, Part A, Teacher Quality [1]	84.367	14341	765,551
Title III			
Title III, Limited English Proficient (LEP) Student Program	84.365	14346	248,295
Title III, Immigrant Education Program	84.365	15146	6,794
Subtotal Title III			<u>255,089</u>
Special Education Cluster			
IDEA Basic Local Assistance Entitlement, Part B, Sec 611	84.027	13379	2,294,611
Part B, Preschool Grants	84.173	13430	422,834
Preschool Staff Development	84.173A	13431	896
Supporting Inclusive Practices	84.027A	13693	50,625
Subtotal Special Education Cluster			<u>2,768,966</u>
IDEA Early Intervention Grants	84.181	23761	155,815
Title X, McKinney-Vento Homeless Assistance	84.196	14332	2,500
School Counseling	84.215E	*	352,981
<b>Total U. S. Department of Education</b>			<u><u>8,975,852</u></u>
U. S. DEPARTMENT OF AGRICULTURE:			
<i>Passed through California Department of Education:</i>			
Child Nutrition Cluster [1]			
Especially Needy Breakfast Program	10.553	13526	1,033,590
National School Lunch Program	10.555	13391	5,077,191
Afterschool Meal Supplements	10.555	*	104,614
USDA Commodities	10.555	*	551,078
Subtotal Child Nutrition Cluster			<u>6,766,473</u>
<b>Total U. S. Department of Agriculture</b>			<u><u>6,766,473</u></u>
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
<i>Passed through California Department of Health Services:</i>			
Medicaid			
Medi-Cal Billing Option	93.778	10013	156,665
Medi-Cal Administrative Activities	93.778	10060	233,698
Subtotal Medicaid			<u>390,363</u>
<b>Total U. S. Department of Health &amp; Human Services</b>			<u>390,363</u>
<b>Total Federal Expenditures</b>			<u><u>\$ 16,132,688</u></u>

[1] - Major Program

\* - Pass-Through Entity Identifying Number not available or not applicable

**LANCASTER SCHOOL DISTRICT  
SCHEDULE OF AVERAGE DAILY ATTENDANCE (ADA)  
FOR THE YEAR ENDED JUNE 30, 2016**

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	<b>Second Period Report</b>	<b>Annual Report</b>
SCHOOL DISTRICT		
TK/K through Third		
Regular ADA	6,160.49	6,183.93
Extended Year Special Education	3.04	3.04
Special Education - Nonpublic Schools	0.71	0.56
Total TK/K through Third	6,164.24	6,187.53
Fourth through Sixth		
Regular ADA	4,466.88	4,469.61
Extended Year Special Education	4.52	4.52
Total Fourth through Sixth	4,471.40	4,474.13
Seventh through Eighth		
Regular ADA	2,806.60	2,816.00
Extended Year Special Education	2.38	2.38
Special Education - Nonpublic Schools	3.86	3.85
Extended Year Special Education - Nonpublic Schools	0.38	0.38
Total Seventh through Eighth	2,813.22	2,822.61
TOTAL SCHOOL DISTRICT	13,448.86	13,484.27

See accompanying note to supplementary information.

**LANCASTER SCHOOL DISTRICT  
SCHEDULE OF INSTRUCTIONAL TIME  
FOR THE YEAR ENDED JUNE 30, 2016**

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<b>Grade Level</b>	<b>Minutes Requirement</b>	<b>2015-16 Actual Minutes</b>	<b>Number of Days</b>	<b>Status</b>
Kindergarten	36,000	53,783	180	Complied
Grade 1	50,400	53,783	180	Complied
Grade 2	50,400	53,783	180	Complied
Grade 3	50,400	53,783	180	Complied
Grade 4	54,000	56,287	180	Complied
Grade 5	54,000	56,287	180	Complied
Grade 6	54,000	56,287	180	Complied
Grade 7	54,000	56,287	180	Complied
Grade 8	54,000	56,287	180	Complied

See accompanying note to supplementary information.

**LANCASTER SCHOOL DISTRICT  
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2016**

	<b>2017 (Budget)</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
General Fund - Budgetary Basis**				
Revenues And Other Financing Sources	\$ 149,012,739	\$ 148,622,468	\$ 121,182,307	\$ 111,410,126
Expenditures And Other Financing Uses	155,253,718	142,207,346	123,163,272	112,439,174
Net change in Fund Balance	\$ (6,240,979)	\$ 6,415,122	\$ (1,980,965)	\$ (1,029,048)
Ending Fund Balance	\$ 1,417,684	\$ 20,378,663	\$ 13,963,541	\$ 15,944,506
Available Reserves*	\$ 10,510,242	\$ 14,815,403	\$ 11,912,989	\$ 12,555,937
Available Reserves As A Percentage Of Outgo	6.77%	10.42%	9.67%	11.17%
Long-term Debt	\$ 189,192,772	\$ 192,051,455	\$ 167,844,120	\$ 82,948,038
Average Daily Attendance At P-2	13,449	13,449	13,587	13,440

The General Fund balance has increased by \$4,434,157 over the past two years. The fiscal year 2016-17 budget projects a decrease of \$6,240,979. For a District this size, the State recommends available reserves of at least 3% of General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating deficits in two of the past three years and anticipates incurring an operating deficit during the 2016-17 fiscal year. Total long term obligations have increased by \$109,103,417 over the past two years.

Average daily attendance has increased by 9 ADA over the past two years. No change in ADA is anticipated during the 2016-17 fiscal year.

\*Available reserves consist of all unassigned fund balance within the General Fund.

\*\*The actual amounts reported in this schedule do not include on behalf payments of \$3,574,237

LANCASTER SCHOOL DISTRICT  
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016

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*There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2016.*

LANCASTER SCHOOL DISTRICT  
SCHEDULE OF CHARTER SCHOOLS  
FOR THE YEAR ENDED JUNE 30, 2016

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<b>Charter School</b>	<b>Status</b>	<b>Included in Audit Report</b>
iLEAD Lancaster Charter	Active	No
Life Source International Charter	Active	No

See accompanying note to supplementary information.

**LANCASTER SCHOOL DISTRICT  
COMBINING BALANCE SHEET  
JUNE 30, 2016**

	Child Development Fund		Deferred Maintenance Fund		Capital Facilities Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Capital Projects Fund for Blended Component Units	Bond Interest & Redemption Fund	Debt Service Fund for Blended Component Units	Debt Service Fund	Non-Major Governmental Funds
<b>ASSETS</b>												
Cash and investments	\$ -	\$ 2,969,741	\$ 1,558,845	\$ 918,219	\$ 1,154,447	\$ 5,564,406	\$ 474	\$ 3,580,921	\$ 782,774	\$ 105,534	\$ 16,635,361	
Accounts receivable	261,179	1,794,358	3,651	1,639	3,616	94,468	1	-	2,741	289	2,161,942	
Stores inventory	-	200,833	-	-	-	-	-	-	-	-	200,833	
<b>Total Assets</b>	<b>\$ 261,179</b>	<b>\$ 4,964,932</b>	<b>\$ 1,562,496</b>	<b>\$ 919,858</b>	<b>\$ 1,158,063</b>	<b>\$ 5,658,874</b>	<b>\$ 475</b>	<b>\$ 3,580,921</b>	<b>\$ 785,515</b>	<b>\$ 105,823</b>	<b>\$ 18,998,136</b>	
<b>LIABILITIES</b>												
Deficit cash	\$ 41,175	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 41,175	
Accrued liabilities	47,399	63,362	17,856	44,535	-	199,719	-	-	-	-	372,871	
Due to other funds	50,000	-	-	-	-	-	-	-	-	-	50,000	
<b>Total Liabilities</b>	<b>138,574</b>	<b>63,362</b>	<b>17,856</b>	<b>44,535</b>	<b>-</b>	<b>199,719</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>464,046</b>	
<b>FUND BALANCES</b>												
Non-spendable	-	473,748	-	-	-	-	-	-	-	-	473,748	
Restricted	122,605	4,397,161	-	-	1,158,063	5,459,155	475	3,580,921	785,515	105,823	15,609,718	
Committed	-	-	1,544,640	-	-	-	-	-	-	-	1,544,640	
Assigned	-	30,661	-	875,323	-	-	-	-	-	-	905,984	
<b>Total Fund Balances</b>	<b>122,605</b>	<b>4,901,570</b>	<b>1,544,640</b>	<b>875,323</b>	<b>1,158,063</b>	<b>5,459,155</b>	<b>475</b>	<b>3,580,921</b>	<b>785,515</b>	<b>105,823</b>	<b>18,534,090</b>	
<b>Total Liabilities and Fund Balance</b>	<b>\$ 261,179</b>	<b>\$ 4,964,932</b>	<b>\$ 1,562,496</b>	<b>\$ 919,858</b>	<b>\$ 1,158,063</b>	<b>\$ 5,658,874</b>	<b>\$ 475</b>	<b>\$ 3,580,921</b>	<b>\$ 785,515</b>	<b>\$ 105,823</b>	<b>\$ 18,998,136</b>	

See accompanying note to supplementary information.

**LANCASTER SCHOOL DISTRICT  
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2016**

	Child Development		Deferred Maintenance		Capital Facilities	County School	Special Reserve	Capital Projects	Bond Interest &	Debt Service	Non-Major	
	Fund	Cafeteria Fund	Fund	Fund	Fund	Facilities Fund	Fund for Capital Outlay Projects	Fund for Blended Component Units	Redemption Fund	Fund for Blended Component Units	Debt Service Fund	Governmental Funds
<b>REVENUES</b>												
Federal sources	\$ -	\$ 6,766,473	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,766,473
Other state sources	2,343,057	483,032	-	-	-	-	-	-	47,460	-	-	2,873,549
Other local sources	2,164	397,902	7,661	649,492	9,058	1,133,268	4	4,005,324	649,225	734		6,854,832
<b>Total Revenues</b>	<b>2,345,221</b>	<b>7,647,407</b>	<b>7,661</b>	<b>649,492</b>	<b>9,058</b>	<b>1,133,268</b>	<b>4</b>	<b>4,052,784</b>	<b>649,225</b>	<b>734</b>		<b>16,494,854</b>
<b>EXPENDITURES</b>												
Current												
Instruction	1,688,075	-	-	-	-	-	-	-	-	-	-	1,688,075
Instruction-related services												
Instructional supervision and administration	235,604	-	-	-	-	-	-	-	-	-	-	235,604
School site administration	197,633	-	-	-	-	-	-	-	-	-	-	197,633
Pupil services												
Food services	15,929	6,849,355	-	-	-	-	-	-	-	-	-	6,865,284
All other pupil services	30,642	-	-	-	-	-	-	-	-	-	-	30,642
General administration												
All other general administration	154,264	305,731	-	-	-	-	-	-	-	-	-	459,995
Plant services	6,663	-	-	-	-	-	298,308	-	-	-	-	304,971
Facilities acquisition and maintenance	-	-	601,423	76,483	-	-	1,783,205	-	-	-	-	2,461,111
Debt service												
Principal	-	-	-	376,531	-	-	-	-	1,946,277	140,000	-	2,462,808
Interest and other	-	-	-	21,692	-	-	-	186	1,849,751	369,883	5,610	2,247,122
<b>Total Expenditures</b>	<b>2,328,810</b>	<b>7,155,086</b>	<b>601,423</b>	<b>474,706</b>	<b>-</b>	<b>2,081,513</b>	<b>186</b>	<b>3,796,028</b>	<b>509,883</b>	<b>5,610</b>		<b>16,953,245</b>
<b>Excess (Deficiency) of Revenues</b>												
<b>Over Expenditures</b>	<b>16,411</b>	<b>492,321</b>	<b>(593,762)</b>	<b>174,786</b>	<b>9,058</b>	<b>(948,245)</b>	<b>(182)</b>	<b>256,756</b>	<b>139,342</b>	<b>(4,876)</b>		<b>(458,391)</b>
<b>Other Financing Sources (Uses)</b>												
Transfers in	79	-	1,500,000	200,000	-	5,400,000	-	-	-	-	-	7,100,079
Transfers out	-	-	-	-	-	-	-	-	(500,000)	-	-	(500,000)
<b>Net Financing Sources (Uses)</b>	<b>79</b>	<b>-</b>	<b>1,500,000</b>	<b>200,000</b>	<b>-</b>	<b>5,400,000</b>	<b>-</b>	<b>-</b>	<b>(500,000)</b>	<b>-</b>		<b>6,600,079</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>16,490</b>	<b>492,321</b>	<b>906,238</b>	<b>374,786</b>	<b>9,058</b>	<b>4,451,755</b>	<b>(182)</b>	<b>256,756</b>	<b>(360,658)</b>	<b>(4,876)</b>		<b>6,141,688</b>
<b>Fund Balance - Beginning</b>	<b>106,115</b>	<b>4,409,249</b>	<b>638,402</b>	<b>500,537</b>	<b>1,149,005</b>	<b>1,007,400</b>	<b>657</b>	<b>3,324,165</b>	<b>1,146,173</b>	<b>110,699</b>		<b>12,392,402</b>
<b>Fund Balance - Ending</b>	<b>\$ 122,605</b>	<b>\$ 4,901,570</b>	<b>\$ 1,544,640</b>	<b>\$ 875,323</b>	<b>\$ 1,158,063</b>	<b>\$ 5,459,155</b>	<b>\$ 475</b>	<b>\$ 3,580,921</b>	<b>\$ 785,515</b>	<b>\$ 105,823</b>		<b>\$ 18,534,090</b>

See accompanying note to supplementary information.

**LANCASTER SCHOOL DISTRICT  
 LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE  
 FOR THE YEAR ENDED JUNE 30, 2016**

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The Lancaster School District was established in 1885 and consists of an area comprising approximately eighty three square miles. The District operates twelve Kindergarten through fifth grade elementary schools, five middle schools, and one community day school.

**GOVERNING BOARD**

<b>Member</b>	<b>Office</b>	<b>Term Expires</b>
Chris Grado	President	November 2017
Sandra Price	Vice President	November 2017
Keith Giles	Clerk	November 2019
Gregory Tepeo	Member	November 2019
Diana Grooms	Member	November 2017

**DISTRICT ADMINISTRATORS**

Dr. Michele Bowers  
*Superintendent*

Leona Smith  
*Assistant Superintendent, Business Services*

Brenda Smith  
*Assistant Superintendent, Educational Services*

Lexy Conte  
*Deputy Superintendent, Human Resources Services*

LANCASTER SCHOOL DISTRICT  
 NOTES TO SUPPLEMENTARY INFORMATION  
 JUNE 30, 2016

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NOTE 1 – PURPOSE OF SCHEDULES

**Schedule of Expenditures of Federal Awards**

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

The following schedule provides reconciliation between revenues reported on the Statement of Revenue, Expenditures, and Changes in Fund Balance, and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts represent Federal funds that have been recorded as revenues in a prior year that have been expended by June 30, 2016 or Federal funds that have been recorded as revenues in the current year and were not expended by June 30, 2016. The District did not elect to use the 10 percent de minimis indirect cost rate.

	CFDA	
	Number	Amount
Total Federal Revenues reported in the Statement of Revenues, Expenditures, and Changes in Fund Balance		\$ 16,052,950
Medi-Cal Billing Option	93.778	<u>79,738</u>
Total Expenditures reported in the Schedule of Expenditures of Federal Awards		<u>\$16,132,688</u>

**Schedule of Average Daily Attendance (ADA)**

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

**Schedule of Instructional Time**

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 46208*. During the year ended June 30, 2016, the District participated in the Longer Day incentive funding program. As of June 30, 2016, the District had not yet met its target funding.

**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.

LANCASTER SCHOOL DISTRICT  
NOTES TO SUPPLEMENTARY INFORMATION, continued  
JUNE 30, 2016

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**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 Annual Financial and Budget Report Unaudited Actuals to the audited financial statements.

**Schedule of Charter Schools**

This schedule lists all Charter Schools chartered by the District, and displays information for each Charter School on whether or not the Charter School is included in the District audit.

**Combining Statements – Non-Major Funds**

These statements provide information on the District's non-major funds.

**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.

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**OTHER INDEPENDENT  
AUDITORS' REPORTS**

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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

Christy White, CPA

Michael Ash, CPA

Heather Rubio

Independent Auditors' Report

Governing Board  
Lancaster School District  
Lancaster, 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 Lancaster School District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Lancaster School District's basic financial statements, and have issued our report thereon dated December 6, 2016.

**Internal Control over Financial Reporting**

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

Corporate Office:  
348 Olive Street  
San Diego, CA 92103

toll-free: 877.220.7229  
tel: 619.270.8222  
fax: 619.260.9085  
www.christywhite.com

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State Board of Accountancy*

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. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Audit Findings and Questioned Costs that we consider to be significant deficiencies. (Finding #2016-1)

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Lancaster School District's financial statements are free of 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*.

### **Lancaster School District's Response to Findings**

Lancaster School District's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Lancaster School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



San Diego, California  
December 6, 2016

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; AND REPORT  
ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM  
GUIDANCE

Independent Auditors' Report

Christy White, CPA

Michael Ash, CPA

Heather Rubio

Governing Board  
Lancaster School District  
Lancaster, California

**Report on Compliance for Each Major Federal Program**

We have audited Lancaster 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 Lancaster School District's major federal programs for the year ended June 30, 2016. Lancaster 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 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 Lancaster 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 Lancaster 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 Lancaster School District's compliance.

SAN DIEGO  
LOS ANGELES  
SAN FRANCISCO/BAY AREA

Corporate Office:  
348 Olive Street  
San Diego, CA 92103

toll-free: 877.220.7229  
tel: 619.270.8222  
fax: 619.260.9085  
www.christywhite.com

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### *Opinion on Each Major Federal Program*

In our opinion, Lancaster 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, 2016.

### **Report on Internal Control Over Compliance**

Management of Lancaster 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 Lancaster 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 Lancaster 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.

*Christy White Associates*

San Diego, California  
December 6, 2016

## REPORT ON STATE COMPLIANCE

### Independent Auditors' Report

Christy White, CPA

Michael Ash, CPA

Heather Rubio

Governing Board  
Lancaster School District  
Lancaster, California

### **Report on State Compliance**

We have audited Lancaster School District's compliance with the types of compliance requirements described in the *2015-16 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel that could have a direct and material effect on each of Lancaster School District's state programs for the fiscal year ended June 30, 2016, as identified below.

### ***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state programs.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Lancaster 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 the *2015-16 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the state programs noted below occurred. An audit includes examining, on a test basis, evidence about Lancaster 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 with the requirements referred to above. However, our audit does not provide a legal determination of Lancaster School District's compliance with those requirements.

SAN DIEGO  
LOS ANGELES  
SAN FRANCISCO/BAY AREA

Corporate Office:  
348 Olive Street  
San Diego, CA 92103

toll-free: 877.220.7229  
tel: 619.270.8222  
fax: 619.260.9085  
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### *Opinion on State Compliance*

In our opinion, Lancaster School District complied, in all material respects, with the types of compliance requirements referred to above that are applicable to the state programs noted in the table below for the year ended June 30, 2016.

### *Other Matters*

The results of our auditing procedures disclosed instances of noncompliance, which are described in the accompanying schedule of findings and questioned costs as item #2016-2. Our opinion on state compliance is not modified with respect to these matters.

Lancaster School District's response to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs and corrective action plan. Lancaster School District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### *Procedures Performed*

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

<b>PROGRAM NAME</b>	<b>PROCEDURES PERFORMED</b>
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	No
Continuation Education	Not Applicable
Instructional Time	Yes
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	Yes
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
Educator Effectiveness	Yes
California Clean Energy Jobs Act	No

*Procedures Performed (continued)*

<b>PROGRAM NAME</b>	<b>PROCEDURES PERFORMED</b>
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	Yes
Attendance; for charter schools	Not Applicable
Mode of Instruction; for charter schools	Not Applicable
Nonclassroom-Based Instruction/Independent Study; for charter schools	Not Applicable
Determination of Funding for Nonclassroom-Based Instruction; for charter schools	Not Applicable
Annual Instructional Minutes – Classroom Based; for charter schools	Not Applicable
Charter School Facility Grant Program	Not Applicable

We did not perform testing for Independent Study because total ADA claimed was below the State threshold for testing. Additionally, we did not perform testing for California Clean Energy Jobs Act because the District did not have any program expenditures for the year ended June 30, 2016

*Christy White Associates*

San Diego, California  
December 6, 2016

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**SCHEDULE OF FINDINGS  
AND QUESTIONED COSTS**

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**LANCASTER SCHOOL DISTRICT  
SUMMARY OF AUDITORS' RESULTS  
FOR THE YEAR ENDED JUNE 30, 2016**

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**FINANCIAL STATEMENTS**

Type of auditors' report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>Yes</u>
Non-compliance material to financial statements noted?	<u>No</u>

**FEDERAL AWARDS**

Internal control over major program:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>None Reported</u>
Type of auditors' report issued:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516(a)?	<u>No</u>
Identification of major programs:	

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>84.367</u>	<u>Title II, Part A, Teacher Quality</u>
<u>10.553, 10.555</u>	<u>Child Nutrition Cluster</u>

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>Yes</u>
Type of auditors' report issued on compliance for state programs:	<u>Unmodified</u>

**LANCASTER SCHOOL DISTRICT  
FINANCIAL STATEMENT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2016**

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**FIVE DIGIT CODE**

20000  
30000  
60000

**AB 3627 FINDING TYPE**

Inventory of Equipment  
Internal Control  
Miscellaneous

**FINDING #2016-1: CAFETERIA FUND (60000)**

**Criteria:** During the testing of balance sheet items, we noted variances and discrepancies when verifying balances in the District’s financials in current assets, current liabilities and equity against the Child Nutrition Department’s financials.

**Condition:** The Cafeteria Fund was tested using substantive procedures to ensure accurate balances are recorded. We tested all balance sheet and income statement items against the financials provided by the Child Nutrition Department and supporting documentation.

**Cause:** Child Nutrition Department and Business Services Office are not properly communicating and/or reconciling the Cafeteria Fund balances to reflect accurate financials. There might be a lack of training and oversight when the Cafeteria Fund financials are compiled in the Child Nutrition Department

**Effect:** Appears to be a potential misstatement of the Cafeteria Fund and improperly reflected balances as of June 30, 2016.

**Perspective:** Through our testing and substantive procedures we noted current assets, current liabilities, and equity were improperly stated. For current assets, we noted variances in cash in county treasury, checking account and petty cash account. The cash in county balances in the provided financials did not reflect the balances per LACOE. The cash in banks checking balance did not accurately reflect the balances in the provided financials or bank statements and reconciliations. The petty cash balance was not included in the District’s financials but was included in the Child Nutrition financials. We noted current liabilities were not included in the same account and noted a variance. Through further testing we noted the Child Nutrition financials did not include the payroll liabilities while the district’s financials did not include prepaid meals liability. The current liabilities balances are incorrect since items were excluded. We noted a variance in equity were not able to rely on the equity balances due to all the misclassifications and errors.

**Recommendation:** We recommend the Child Nutrition Department and Business Services implement proper review and reconciliations of the account. Given that there have been errors in the closing process of the District’s Cafeteria Fund for several years now, we recommend the District review all procedures in place surrounding the closing process, including the possibility of including the Cafeteria Fund activity into the People Soft accounting system to minimize future errors.

**District Response:** The District will move forward to bring the Child Nutrition Services under the main financial software, People Soft, through Los Angeles County Office of Education. The Accounting Department and the Child Nutrition Department will reconcile all accounts to balance with the People Soft system for all reporting and year end closing.

LANCASTER SCHOOL DISTRICT  
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2016

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FIVE DIGIT CODE

50000

AB 3627 FINDING TYPE

Federal Compliance

*There were no federal award findings or questioned costs for the year ended June 30, 2016.*

**LANCASTER SCHOOL DISTRICT  
STATE AWARD FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2016**

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<u>FIVE DIGIT CODE</u>	<u>AB 3627 FINDING TYPE</u>
10000	Attendance
40000	State Compliance
42000	Charter School Facilities Programs
60000	Miscellaneous
61000	Classroom Teacher Salaries
62000	Local Control Accountability Plan
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

**FINDING # 2016-2: EDUCATOR EFFECTIVENESS (40000)**

**Criteria:** Per Senate Bill 103, Section 8 (b)(2)(A), the LEA must develop and adopt a plan delineating how the Educator Effectiveness funds will be spent and explain the plan in a public meeting of the governing board of the school district, before its adoption in a subsequent public meeting.

**Condition:** In reviewing the Educator Effectiveness plan, we noted the District approved the plan on March 1, 2016 and presented the plan on June 7, 2016. Therefore, the district did not discuss the plan prior to adopting.

**Effect:** The governing board and public were not provided with sufficient time to review and discuss the plan. The presentation of the plan provides time for revisions and/or changes.

**Cause:** The District overlooked the requirement to present the plan prior to adopting it.

**Questioned Costs:** The questioned costs is total grant amount of \$988,081.

**Perspective:** Auditor obtained the Educator Effectiveness plan and reviewed the board minutes for March 1, 2016 and June 7, 2016.

**Recommendation:** We recommend the District review and implemented all requirements for new funding.

**District's Response:** The District has reviewed all requirements for new funding and is going to submit a presentation for the revised expenditure plan for 2015-16 at the February 7, 2017 board meeting and will submit the actual expenditure plan for 2015-16 at the February 21, 2017 board meeting. This will give appropriate time for input for the expenditure plan.

The District will present the 2016-17 expenditure presentation at a board meeting in March or April 2017 with the expenditure plan submitted for approval at a meeting following the presentation in either April or May 2017.

LANCASTER SCHOOL DISTRICT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2016

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*There were prior financial statement findings or questioned costs for the year ended June 30, 2015.*