

LANCASTER SCHOOL DISTRICT

AUDIT REPORT JUNE 30, 2018

San Diego

Los Angeles

San Francisco
Bay Area

christy  white
A PROFESSIONAL
ACCOUNTANCY CORPORATION *associates*

LANCASTER SCHOOL DISTRICT
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JUNE 30, 2018

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FINANCIAL SECTION

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, 2018, 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.

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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, 2018, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Notes 1 and 9 to the financial statements, in 2018 Lancaster School District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information, such as management's discussion and analysis, budgetary comparison information, schedule of changes in total OPEB liability and related ratios, 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 10, 2018 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Lancaster School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lancaster School District's internal control over financial reporting and compliance.

Christy White Associates

San Diego, California
December 10, 2018

LANCASTER SCHOOL DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

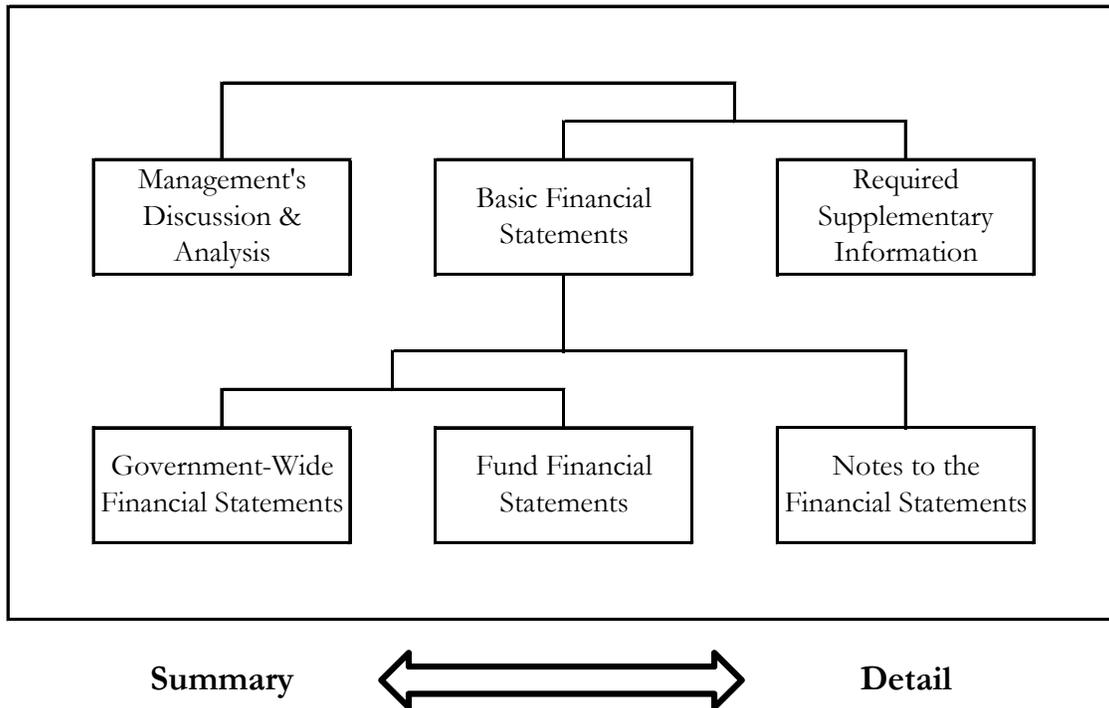
Our discussion and analysis of Lancaster School District's (District) financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2018. It should be read in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District's total net position was \$(8,163,568) at June 30, 2018. This was an increase of \$599,823 from the prior year after restatement.
- Overall revenues were \$183,712,887 which exceeded expenses of \$183,113,064.

OVERVIEW OF FINANCIAL STATEMENTS

Components of the Financials Section



**LANCASTER SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2018**

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, 2018**

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE

Net Position

The District's net position was \$(8,163,568) at June 30, 2018, as reflected in the table below. Of this amount, \$(141,114,111) 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.

	Governmental Activities		
	2018	2017	Net Change
ASSETS			
Current and other assets	\$ 67,391,747	\$ 61,366,373	\$ 6,025,374
Capital assets	156,335,457	149,748,039	6,587,418
Total Assets	223,727,204	211,114,412	12,612,792
DEFERRED OUTFLOWS OF RESOURCES	53,807,549	34,230,378	19,577,171
LIABILITIES			
Current liabilities	11,322,522	18,843,178	(7,520,656)
Long-term liabilities	268,428,357	218,836,046	49,592,311
Total Liabilities	279,750,879	237,679,224	42,071,655
DEFERRED INFLOWS OF RESOURCES	5,947,442	4,136,075	1,811,367
NET POSITION			
Net investment in capital assets	106,920,389	107,587,775	(667,386)
Restricted	26,030,154	18,927,024	7,103,130
Unrestricted	(141,114,111)	(122,985,308)	(18,128,803)
Total Net Position	\$ (8,163,568)	\$ 3,529,491	\$ (11,693,059)

**LANCASTER SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2018**

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 it slightly, so you can see our total revenues, expenses, and special items for the year.

	Governmental Activities		
	2018	2017	Net Change
REVENUES			
Program revenues			
Charges for services	\$ 337,398	\$ 338,373	\$ (975)
Operating grants and contributions	35,175,879	38,776,513	(3,600,634)
General revenues			
Property taxes	23,670,274	21,129,770	2,540,504
Unrestricted federal and state aid	122,124,671	116,688,806	5,435,865
Other	2,404,665	2,097,468	307,197
Total Revenues	183,712,887	179,030,930	4,681,957
EXPENSES			
Instruction	106,963,214	112,425,034	(5,461,820)
Instruction-related services	16,384,695	16,702,153	(317,458)
Pupil services	22,770,936	23,092,668	(321,732)
General administration	10,780,732	13,746,398	(2,965,666)
Plant services	15,910,613	14,193,262	1,717,351
Ancillary and community services	1,228,638	1,259,817	(31,179)
Debt service	3,967,041	3,363,837	603,204
Other outgo	1,180,164	1,260,942	(80,778)
Enterprise activities	3,927,031	1,536,242	2,390,789
Total Expenses	183,113,064	187,580,353	(4,467,289)
Change in net position	599,823	(8,549,423)	9,149,246
Net Position - Beginning*	(8,763,391)	12,078,914	(20,842,305)
Net Position - Ending	\$ (8,163,568)	\$ 3,529,491	\$ (11,693,059)

* Beginning Net Position was restated for the 2018 year only

**LANCASTER SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2018**

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE (continued)

Changes in Net Position (continued)

In the table below, we have presented the net cost of each of the District's functions. Net cost shows the financial burden that was placed on the District's taxpayers by each of these functions. Providing this information allows our citizens to consider the cost of each function in comparison to the benefits they believe are provided by that function.

	Net Cost of Services	
	2018	2017
Instruction	\$ 86,236,255	\$ 89,577,061
Instruction-related services	14,332,813	14,013,173
Pupil services	12,695,562	11,869,963
General administration	9,725,176	12,861,985
Plant services	15,883,942	14,160,320
Ancillary and community services	121,254	194,047
Debt service	3,967,041	3,363,837
Transfers to other agencies	710,713	888,839
Enterprise activities	3,927,031	1,536,242
Total Expenses	\$ 147,599,787	\$ 148,465,467

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 \$59,195,443, which is more than last year's ending fund balance of \$46,270,232. The District's General Fund had \$6,152,488 more in operating revenues than expenditures for the year ended June 30, 2018. The District's Building Fund had \$9,248,608 less in operating revenues than expenditures for the year ended June 30, 2018. The District's Special Reserve Fund for Capital Outlay Projects had \$2,951,452 less in operating revenues than expenditures for the year ended June 30, 2018.

CURRENT YEAR BUDGET 2017-2018

During the fiscal year, budget revisions and appropriation transfers are presented to the Board for their approval on a frequent 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, 2018

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2017-2018 the District had invested \$156,335,457 in capital assets, net of accumulated depreciation.

	Governmental Activities		
	2018	2017	Net Change
CAPITAL ASSETS			
Land	\$ 9,507,508	\$ 9,507,508	\$ -
Construction in progress	16,636,787	7,318,456	9,318,331
Land improvements	22,168,939	22,168,939	-
Buildings & improvements	192,087,766	192,087,766	-
Furniture & equipment	26,493,364	24,066,995	2,426,369
Accumulated depreciation	(110,558,907)	(105,401,625)	(5,157,282)
Total Capital Assets	\$ 156,335,457	\$ 149,748,039	\$ 6,587,418

Long-Term Liabilities

At year-end, the District had \$268,428,357 in long-term liabilities, an increase of 16% from last year's restated balance – as shown in the table below. (More detailed information about the District's long-term liabilities is presented in footnotes to the financial statements.)

	Governmental Activities		
	2018	2017	Net Change
LONG-TERM LIABILITIES			
Total general obligation bonds	\$ 70,000,508	\$ 60,239,609	\$ 9,760,899
Total certificates of participation	8,066,482	7,715,000	351,482
Compensated absences	765,875	658,667	107,208
Annuity payable	1,696,000	1,439,000	257,000
Total OPEB liability*	32,093,613	29,736,199	2,357,414
Net pension liability	158,190,998	134,456,826	23,734,172
Less: current portion of long-term debt	(2,385,119)	(3,116,373)	731,254
Total Long-term Liabilities	\$ 268,428,357	\$ 231,128,928	\$ 37,299,429

**Total OPEB liability for 2017 was restated in order to record the District's total OPEB liability in accordance with GASB Statement No. 75 which supersedes GASB Statement No. 45 for the year ended June 30, 2018.*

**LANCASTER SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2018**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

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

The State's economy continues to be strong but a new governor could change the fiscal policy for the funding of public education, within the boundaries of Proposition 98. Past fiscal allocations had included higher than expected funding but on-going funding may not be as strong. The UCLA Anderson Forecast (June 2018) noted that the "era of ultra-low interest rates has passed and the economy is at full employment," which creates difficulty sustaining continued growth at the rate recently experienced. And, according to the California Legislative Analyst's Office, there are concerns about a possible mild recession.

Landmark legislation passed in Year 2013 reformed California school district finance by creating the Local Control Funding Formula (LCFF). 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 2018-19 adopted State Budget fully funded the LCFF funding gap two years ahead of schedule.

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

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 2018-19 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, 2018

	Governmental Activities
ASSETS	
Cash and investments	\$ 60,599,937
Accounts receivable	6,341,559
Inventory	148,716
Prepaid expenses	301,535
Capital assets, not depreciated	26,144,295
Capital assets, net of accumulated depreciation	130,191,162
Total Assets	<u>223,727,204</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to pensions	53,650,399
Deferred amount on refunding	157,150
Total Deferred Outflows of Resources	<u>53,807,549</u>
LIABILITIES	
Deficit cash	18,486
Accrued liabilities	8,823,384
Unearned revenue	95,533
Long-term liabilities, current portion	2,385,119
Long-term liabilities, non-current portion	268,428,357
Total Liabilities	<u>279,750,879</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to pensions	5,687,556
Deferred amount on refunding	259,886
Total Deferred Inflows of Resources	<u>5,947,442</u>
NET POSITION	
Net investment in capital assets	106,920,389
Restricted:	
Capital projects	14,089,061
Debt service	5,493,049
Educational programs	2,155,553
All others	4,292,491
Unrestricted	(141,114,111)
Total Net Position	<u>\$ (8,163,568)</u>

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

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

Function/Programs	Expenses	Program Revenues		Net (Expenses) Revenues and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Governmental Activities
GOVERNMENTAL ACTIVITIES				
Instruction	\$ 106,963,214	\$ -	\$ 20,726,959	\$ (86,236,255)
Instruction-related services				
Instructional supervision and administration	3,590,436	-	1,535,856	(2,054,580)
Instructional library, media, and technology	11,671	-	-	(11,671)
School site administration	12,782,588	-	516,026	(12,266,562)
Pupil services				
Home-to-school transportation	4,240,385	-	504,705	(3,735,680)
Food services	7,883,991	320,543	7,088,705	(474,743)
All other pupil services	10,646,560	-	2,161,421	(8,485,139)
General administration				
Centralized data processing	2,830,739	-	22,485	(2,808,254)
All other general administration	7,949,993	16,855	1,016,216	(6,916,922)
Plant services	15,910,613	-	26,671	(15,883,942)
Ancillary services	11,155	-	-	(11,155)
Community services	1,217,483	-	1,107,384	(110,099)
Enterprise activities	3,927,031	-	-	(3,927,031)
Interest on long-term debt	3,967,041	-	-	(3,967,041)
Other outgo	1,180,164	-	469,451	(710,713)
Total Governmental Activities	\$ 183,113,064	\$ 337,398	\$ 35,175,879	(147,599,787)
General revenues				
Taxes and subventions				
				16,406,573
				5,944,175
				1,319,526
				122,124,671
				619,762
				1,784,903
				148,199,610
CHANGE IN NET POSITION				
				599,823
Net Position - Beginning, as Restated				
				(8,763,391)
Net Position - Ending				
				\$ (8,163,568)

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

**LANCASTER SCHOOL DISTRICT
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2018**

	General Fund	Building Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total Governmental Funds
ASSETS					
Cash and investments	\$ 26,108,085	\$ 10,245,490	\$ 11,218,169	\$ 13,028,193	\$ 60,599,937
Accounts receivable	4,726,643	45,678	44,724	1,524,514	6,341,559
Stores inventory	-	-	-	148,716	148,716
Prepaid expenditures	301,535	-	-	-	301,535
Total Assets	\$ 31,136,263	\$ 10,291,168	\$ 11,262,893	\$ 14,701,423	\$ 67,391,747
LIABILITIES					
Deficit cash	\$ -	\$ -	\$ -	\$ 18,486	\$ 18,486
Accrued liabilities	7,440,785	232,441	156,379	252,680	8,082,285
Unearned revenue	95,533	-	-	-	95,533
Total Liabilities	7,536,318	232,441	156,379	271,166	8,196,304
FUND BALANCES					
Nonspendable	316,535	-	-	443,544	760,079
Restricted	1,782,679	10,058,727	11,106,514	13,882,060	36,829,980
Assigned	1,921,893	-	-	104,653	2,026,546
Unassigned	19,578,838	-	-	-	19,578,838
Total Fund Balances	23,599,945	10,058,727	11,106,514	14,430,257	59,195,443
Total Liabilities and Fund Balances	\$ 31,136,263	\$ 10,291,168	\$ 11,262,893	\$ 14,701,423	\$ 67,391,747

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, 2018**

Total Fund Balance - Governmental Funds \$ 59,195,443

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	\$ 266,894,364	
Accumulated depreciation	<u>(110,558,907)</u>	156,335,457

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:

(102,736)

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:

(741,099)

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	\$ 70,000,508	
Total certificates of participation	8,066,482	
Compensated absences	765,875	
Annuity payable	1,696,000	
Total OPEB liability	32,093,613	
Net pension liability	<u>158,190,998</u>	(270,813,476)

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	\$ 53,650,399	
Deferred inflows of resources related to pensions	<u>(5,687,556)</u>	47,962,843

Total Net Position - Governmental Activities \$ (8,163,568)

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, 2018**

	General Fund	Building Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total Governmental Funds
REVENUES					
LCFF sources	\$ 133,553,498	\$ -	\$ -	\$ -	\$ 133,553,498
Federal sources	9,751,050	-	-	6,900,260	16,651,310
Other state sources	12,855,045	-	3,385,673	4,287,529	20,528,247
Other local sources	7,806,603	106,722	1,507,594	7,093,466	16,514,385
Total Revenues	163,966,196	106,722	4,893,267	18,281,255	187,247,440
EXPENDITURES					
Current					
Instruction	100,090,431	-	-	2,431,183	102,521,614
Instruction-related services					
Instructional supervision and administration	2,992,541	-	-	400,605	3,393,146
Instructional library, media, and technology	2,088	-	-	-	2,088
School site administration	11,690,614	-	-	218,774	11,909,388
Pupil services					
Home-to-school transportation	3,867,144	-	-	-	3,867,144
Food services	7,068	-	-	7,361,455	7,368,523
All other pupil services	10,486,740	-	-	35,877	10,522,617
General administration					
Centralized data processing	2,708,838	-	-	-	2,708,838
All other general administration	6,895,750	-	-	529,372	7,425,122
Plant services					
Facilities acquisition and maintenance	757,246	9,355,330	1,487,418	346,588	11,946,582
Ancillary services	11,155	-	-	-	11,155
Community services	1,190,999	-	-	-	1,190,999
Enterprise activities	1,666,564	-	-	-	1,666,564
Transfers to other agencies	1,290,609	-	-	-	1,290,609
Debt service					
Principal	-	-	-	2,547,836	2,547,836
Interest and other	-	-	-	2,809,397	2,809,397
Total Expenditures	157,813,708	9,355,330	1,941,815	16,691,050	185,801,903
Excess (Deficiency) of Revenues					
Over Expenditures	6,152,488	(9,248,608)	2,951,452	1,590,205	1,445,537
Other Financing Sources (Uses)					
Transfers in	-	-	1,000,000	-	1,000,000
Other sources	-	10,815,000	-	8,406,824	19,221,824
Transfers out	(1,000,000)	-	-	-	(1,000,000)
Other uses	-	-	-	(7,742,150)	(7,742,150)
Net Financing Sources (Uses)	(1,000,000)	10,815,000	1,000,000	664,674	11,479,674
NET CHANGE IN FUND BALANCE					
	5,152,488	1,566,392	3,951,452	2,254,879	12,925,211
Fund Balance - Beginning	18,447,457	8,492,335	7,155,062	12,175,378	46,270,232
Fund Balance - Ending	\$ 23,599,945	\$ 10,058,727	\$ 11,106,514	\$ 14,430,257	\$ 59,195,443

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, 2018**

Net Change in Fund Balances - Governmental Funds \$ 12,925,211

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:	\$ 11,744,700	
Depreciation expense:	<u>(5,157,282)</u>	6,587,418

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:

10,825,000

Debt proceeds:

In governmental funds, proceeds from debt are recognized as Other Financing Sources. In the government-wide statements, proceeds from debt are reported as increases to liabilities. Amounts recognized in governmental funds as proceeds from debt, net of issue premium or discount, were:

(19,221,824)

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:

243,779

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:

(110,435)

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.

(1,739,572)

(continued on following page)

**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, 2018**

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: (107,208)

Postemployment benefits other than pensions (OPEB):

In governmental funds, OPEB expenses are recognized when employer OPEB contributions are made. In the statement of activities, OPEB expenses are recognized on the accrual basis. This year, the difference between OPEB expenses and actual employer OPEB contributions was: (2,357,414)

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: (6,212,147)

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: (257,000)

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: 24,015

Change in Net Position of Governmental Activities

\$ 599,823

LANCASTER SCHOOL DISTRICT
 FIDUCIARY FUNDS
 STATEMENT OF NET POSITION
 JUNE 30, 2018

	<u>Trust Funds</u>	<u>Agency Funds</u>	
	<u>Retiree Benefit Fund</u>	<u>Warrant/Pass- through Fund</u>	<u>Student Body Fund</u>
ASSETS			
Cash and investments	\$ 11	\$ 656,508	\$ 156,677
Total Assets	<u>11</u>	<u>\$ 656,508</u>	<u>\$ 156,677</u>
LIABILITIES			
Accrued liabilities	-	\$ 656,508	\$ -
Due to student groups	-	-	156,677
Total Liabilities	<u>-</u>	<u>\$ 656,508</u>	<u>\$ 156,677</u>
NET POSITION			
Restricted	11		
Total Net Position	<u>\$ 11</u>		

LANCASTER SCHOOL DISTRICT
 FIDUCIARY FUNDS
 STATEMENT OF CHANGES IN NET POSITION
 FOR THE YEAR ENDED JUNE 30, 2018

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

LANCASTER SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

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*)

Major Governmental 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*).

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*).

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*).

LANCASTER SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

Non-Major Governmental Funds (continued)

Capital Project Funds (continued)

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.*).

Capital Outlay 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*)

Trust and Agency 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.

LANCASTER SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2018

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.

Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the total OPEB liability, deferred outflows of resources related to OPEB and deferred inflows of resources related to OPEB, and OPEB expense have been determined by an independent actuary. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms.

Generally accepted accounting principles require the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date	June 30, 2018
Measurement Date	June 30, 2018
Measurement Period	July 1, 2017 to June 30, 2018

Gains and losses related to changes in total OPEB liability are recognized in OPEB expense systematically over time. The first amortized amounts are recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense. The amortization period differs depending on the source of gain or loss. The difference between projected and actual earnings is amortized on a straight-line basis over five years. All other amounts are amortized on a straight-line basis over the average expected remaining service lives of all members that are provided with benefits (active, inactive, and retired) at the beginning of the measurement period.

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*)

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.

LANCASTER SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2018

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.

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, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. New Accounting Pronouncements

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 implemented GASB Statement No. 75 for the year ended June 30, 2018.

GASB Statement No. 84 – In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. This standard's primary objective is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The statement is effective for periods beginning after December 15, 2018. The District has not yet determined the impact on the financial statements.

GASB Statement No. 85 – In March 2017, GASB issued Statement No. 85, *Omnibus 2017*. This standard's primary objective is to address practice issues that have been identified during implementation and application of certain GASB Statements. This statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The statement is effective for periods beginning after June 15, 2017. The District has implemented GASB Statement No. 85 for the year ended June 30, 2018.

GASB Statement No. 87 – In June 2017, GASB issued Statement No. 87, *Leases*. This standard's primary objective is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The statement is effective for periods beginning after December 15, 2019. The District has not determined the impact on the financial statements.

GASB Statement No. 88 – In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. This standard's primary objective is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The statement is effective for periods beginning after June 15, 2018. The District has not determined the impact on the financial statements.

LANCASTER SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2018

NOTE 2 – CASH AND INVESTMENTS

A. Summary of Cash and Investments

	Governmental Activities	Fiduciary Funds
Investment in county treasury *	\$ 59,708,365	\$ 656,519
Cash on hand and in banks	549,538	156,677
Cash with fiscal agent	13,720	-
Cash in revolving fund	309,828	-
Total cash and investments	\$ 60,581,451	\$ 813,196

*Investment in county treasury is shown net of deficit cash.

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, 2018

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 \$59,547,557 and an amortized book value of \$59,708,365. The average weighted maturity for this pool is 609 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, 2018, the pooled investments in the County Treasury were rated at least ‘A’ by Moddy’s Investors Service.

LANCASTER SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2018

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, 2018, 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, 2018 were as follows:

	<u>Uncategorized</u>
Investment in county treasury	\$ 59,574,557
Total fair market value of investments	<u>\$ 59,574,557</u>

LANCASTER SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 3 – ACCOUNTS RECEIVABLE

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

	General Fund	Building Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total Governmental Activities
Federal Government					
Categorical aid	\$ 3,149,043	\$ -	\$ -	\$ 927,893	\$ 4,076,936
State Government					
Apportionment	25,902	-	-	-	25,902
Categorical aid	864,431	-	-	563,779	1,428,210
Lottery	294,208	-	-	-	294,208
Local Government					
Other local sources	393,059	45,678	44,724	32,842	516,303
Total	\$ 4,726,643	\$ 45,678	\$ 44,724	\$ 1,524,514	\$ 6,341,559

NOTE 4 – CAPITAL ASSETS

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

	Balance July 01, 2017	Additions	Deletions	Balance June 30, 2018
Governmental Activities				
Capital assets not being depreciated				
Land	\$ 9,507,508	\$ -	\$ -	\$ 9,507,508
Construction in progress	7,318,456	9,318,331	-	16,636,787
Total Capital Assets not Being Depreciated	16,825,964	9,318,331	-	26,144,295
Capital assets being depreciated				
Land improvements	22,168,939	-	-	22,168,939
Buildings & improvements	192,087,766	-	-	192,087,766
Furniture & equipment	24,066,995	2,426,369	-	26,493,364
Total Capital Assets Being Depreciated	238,323,700	2,426,369	-	240,750,069
Less Accumulated Depreciation				
Land improvements	12,020,625	751,680	-	12,772,305
Buildings & improvements	72,583,225	3,746,424	-	76,329,649
Furniture & equipment	20,797,775	659,178	-	21,456,953
Total Accumulated Depreciation	105,401,625	5,157,282	-	110,558,907
Governmental Activities				
Capital Assets, net	\$ 149,748,039	\$ 6,587,418	\$ -	\$ 156,335,457

LANCASTER SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2018

NOTE 4 – CAPITAL ASSETS (continued)

Depreciation expense was allocated to governmental functions as follows:

Governmental Activities	
Instruction	\$ 3,525,732
Instructional supervision and administration	97,261
Instructional library, media, and technology	9,366
School site administration	444,974
Home-to-school transportation	373,241
Food services	140,611
All other pupil services	10,556
Centralized data processing	46,603
All other general administration	169,021
Plant services	320,161
Community services	19,756
Total depreciation expense	<u>\$ 5,157,282</u>

NOTE 5 – INTERFUND TRANSACTIONS

Operating Transfers

Interfund transfers for the year ended June 30, 2018 consisted of a transfer from General Fund to Special Reserve Fund for Capital Outlay Projects for future projects in the amount of \$1,000,000.

NOTE 6 – ACCRUED LIABILITIES

Accrued liabilities at June 30, 2018 consisted of the following:

	General Fund	Building Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	District-Wide	Total Governmental Activities	Total Fiduciary
Payroll	\$ 1,412,189	\$ -	\$ 21,610	\$ 91,741	\$ -	\$ 1,525,540	\$ -
Construction	-	232,441	134,769	-	-	367,210	-
Vendors payable	6,028,596	-	-	160,939	-	6,189,535	656,508
Unmatured interest	-	-	-	-	741,099	741,099	-
Total	<u>\$ 7,440,785</u>	<u>\$ 232,441</u>	<u>\$ 156,379</u>	<u>\$ 252,680</u>	<u>\$ 741,099</u>	<u>\$ 8,823,384</u>	<u>\$ 656,508</u>

LANCASTER SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 7 – LONG-TERM DEBT

A schedule of changes in long-term debt for the year ended June 30, 2018 consisted of the following:

	Restated			Balance June 30, 2018	Balance Due In One Year
	Balance July 01, 2017	Additions	Deductions		
Governmental Activities					
General obligation bonds	\$ 59,849,844	\$ 12,739,572	\$ 3,110,000	\$ 69,479,416	\$ 1,506,118
Unamortized premium	389,765	155,342	24,015	521,092	24,015
Total general obligation bonds	60,239,609	12,894,914	3,134,015	70,000,508	1,530,133
Certificates of participation	7,715,000	7,660,000	7,715,000	7,660,000	315,000
Unamortized premium	-	406,482	-	406,482	10,986
Total certificates of participation	7,715,000	8,066,482	7,715,000	8,066,482	325,986
Compensated absences	658,667	107,208	-	765,875	-
Annuity payable	1,439,000	721,000	464,000	1,696,000	529,000
Total OPEB liability	29,736,199	2,357,414	-	32,093,613	-
Net pension liability	134,456,826	23,734,172	-	158,190,998	-
Total	\$ 234,245,301	\$ 47,881,190	\$ 11,313,015	\$ 270,813,476	\$ 2,385,119

- 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 compensated absences are typically liquidated in the General Fund and the Non-Major Governmental Funds.
- Payments for annuity payable are made in the General Fund.

A. Bonded Debt

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds			Bonds Outstanding June 30, 2018
					Outstanding July 01, 2017	Additions	Deductions	
1999 Election - Series A	July 1, 1999	February 1, 2024	3.20% - 5.40%	\$ 17,499,669	\$ 9,799,796	\$ 606,278	\$ -	\$ 10,406,074
1999 Election - Series 2001	June 21, 2001	July 1, 2026	4.00% - 5.63%	11,500,262	19,425,048	1,133,294	1,180,000	19,378,342
2005 Issue - Refunding Bond	July 21, 2009	August 1, 2017	3.50% - 5.00%	9,805,000	1,580,000	-	1,580,000	-
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	11,840,000	-	350,000	11,490,000
2012 Election - Series 2018C	April 11, 2018	August 1, 2047	2.00% - 5.00%	11,000,000	-	11,000,000	-	11,000,000
					\$ 59,849,844	\$ 12,739,572	\$ 3,110,000	\$ 69,479,416

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 1.00 to 5.63 percent.

LANCASTER SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 7– 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%. Series 2018C was issued in the amount of \$11,000,000 in current interest serial and term bonds with interest ranging between 2.00% and 5.00%. 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.

Debt Service Requirements to Maturity – Bonds

The bonds mature through 2048 as follows:

Year Ended June 30,	Principal	Interest	Total
2019	\$ 1,506,118	\$ 3,566,890	\$ 5,073,008
2020	1,437,185	3,900,988	5,338,173
2021	1,522,594	4,142,462	5,665,056
2022	1,628,096	4,415,919	6,044,015
2023	1,667,308	4,693,532	6,360,840
2024 - 2028	9,807,184	23,311,002	33,118,186
2029 - 2033	8,405,000	6,068,184	14,473,184
2034 - 2038	13,970,000	3,593,288	17,563,288
2039 - 2043	6,140,000	1,297,625	7,437,625
2044 - 2048	4,700,000	501,000	5,201,000
Accretion	18,695,931	(18,695,931)	-
Total	\$ 69,479,416	\$ 36,794,959	\$ 106,274,375

LANCASTER SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 7 – LONG-TERM DEBT (continued)

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

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds			Bonds
					Outstanding July 01, 2017	Additions	Redemptions	Outstanding June 30, 2018
2006 Series	April 27, 2006	September 1, 2031	3.45% - 4.85%	\$ 3,750,000	\$ 2,675,000	\$ -	\$ 2,675,000	\$ -
2008 Refunding Project	June 16, 2008	April 1, 2036	3.00% - 4.90%	9,745,000	5,040,000	-	5,040,000	-
2018 Refunding Certificates	December 12, 2017	April 1, 2036	2.00%-5.00%	7,660,000	-	7,660,000	-	7,660,000
					<u>\$ 7,715,000</u>	<u>\$ 7,660,000</u>	<u>\$ 7,715,000</u>	<u>\$ 7,660,000</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.

On December 12, 2017, the Pacific Valleys Schools Financing Authority (Authority) issued \$7,660,000 in current interest Lease Revenue Bonds to service the construction of additional school facilities by the Lancaster School District. The certificates are issued to prepay all of the District’s outstanding Certificates of Participation (1996 Series and 2008 Refunding Project).

LANCASTER SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2018

NOTE 7 – LONG-TERM DEBT (continued)

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

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

Year Ended June 30,	Principal	Interest	Total
2019	\$ 315,000	\$ 270,106	\$ 585,106
2020	320,000	263,806	583,806
2021	325,000	257,406	582,406
2022	335,000	247,656	582,656
2023	350,000	234,256	584,256
2024 - 2028	1,965,000	950,281	2,915,281
2029 - 2033	2,405,000	506,431	2,911,431
2034 - 2036	1,645,000	103,906	1,748,906
Total	\$ 7,660,000	\$ 2,833,848	\$ 10,493,848

D. Annuity Payable

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

Year Ended June 30,	Payment
2019	\$ 529,000
2020	442,500
2021	349,500
2022	259,500
2023	115,500
Total	\$ 1,696,000

E. Compensated Absences

Total unpaid employee compensated absences as of June 30, 2018 amounted to \$765,875. This amount is included as part of long-term liabilities in the government-wide financial statements.

F. Other Postemployment Benefits

The District's restated beginning total OPEB liability was \$29,736,199 and increased by \$2,357,414 during the year ended June 30, 2018. The ending total OPEB liability at June 30, 2018 was \$32,093,613. See Note 9 for additional information regarding the total OPEB liability.

G. Net Pension Liability

The District's beginning net pension liability was \$134,456,826 and increased by \$23,734,172 during the year ended June 30, 2018. The ending net pension liability at June 30, 2018 was \$158,190,998. See Note 10 for additional information regarding the net pension liability.

LANCASTER SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 8 – FUND BALANCES

Fund balances were composed of the following elements at June 30, 2018:

	General Fund	Building Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total Governmental Funds
Non-spendable					
Revolving cash	\$ 15,000	\$ -	\$ -	\$ 294,828	\$ 309,828
Stores inventory	-	-	-	148,716	148,716
Prepaid expenditures	301,535	-	-	-	301,535
Total non-spendable	316,535	-	-	443,544	760,079
Restricted					
Educational programs	1,782,679	-	-	372,874	2,155,553
Capital projects	-	10,058,727	11,106,514	2,982,547	24,147,788
Debt service	-	-	-	6,234,148	6,234,148
All others	-	-	-	4,292,491	4,292,491
Total restricted	1,782,679	10,058,727	11,106,514	13,882,060	36,829,980
Assigned					
Reserve account	-	-	-	1,880	1,880
Equipment replacement	-	-	-	102,773	102,773
Deferred maintenance	1,921,893	-	-	-	1,921,893
Total assigned	1,921,893	-	-	104,653	2,026,546
Unassigned					
Reserve for economic uncertainties	19,578,838	-	-	-	19,578,838
Total unassigned	19,578,838	-	-	-	19,578,838
Total	\$ 23,599,945	\$ 10,058,727	\$ 11,106,514	\$ 14,430,257	\$ 59,195,443

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, 2018

NOTE 9 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

A. Plan Description

The Lancaster School District’s defined benefit OPEB plan, Lancaster School District Retiree Benefit Plan (the Plan) is described below. The Plan is a single employer defined benefit plan administered by the district.

B. Benefits Provided

The eligibility requirements and benefits provided by the Plan are described below.

	<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% of premium up to cap	100% of premium up to cap	100%
District Cap	90% of the active employee cap***	90% of the active employee cap***	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

***Grandfathered retirees may receive different benefits

C. Contributions

The contribution requirements of Plan members and the Lancaster School District are established and may be amended by the Lancaster School District and the local Teachers’ Association and the local California Service Employees Association. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75.

D. Plan Membership

Membership of the Plan consisted of the following:

Inactive employees receiving benefits	<u>110</u>
Inactive employees entitled to but not receiving benefits*	-
Participating active employees	<u>1,471</u>
Total number of participants**	<u>1,581</u>

*Information not provided

**As of the June 30, 2018 valuation date

LANCASTER SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 9 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (continued)

E. Total OPEB Liability

The Lancaster School District’s total OPEB liability of \$32,093,613 was measured as of June 30, 2018 and was determined by an actuarial valuation as of that date.

F. Actuarial Assumptions and Other Inputs

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

Economic assumptions:

Inflation	2.75%
Salary increases	2.75%
Investment rate of return	3.80%
Healthcare cost trend rates	4.00%

Non-economic assumptions:

Mortality:

Certificated	2009 CalSTRS Mortality Table
Classified	2014 CalPERS Active Mortality for Miscellaneous Employees Table

Retirement rates:

Certificated	2009 CalSTRS Retirement Rates Table
Classified	Hired before 1/1/2013: 2009 CalPERS Retirement Rates for School Employees Table Hired before 12/31/2012: 2009 CalPERS Retirement Rates for Miscellaneous Employees Table 2% at 59 adjusted to minimum retirement age of 52

Vesting rates:

Certificated	100% at 10 years of service
Classified	100% at 10 years of service

The actuarial assumptions used in the June 30, 2018 valuation were based on a review of plan experience.

The discount rate was based on the Bond Buyer 20 Bond Index. The actuary assumed contributions would be sufficient to fully fund the obligation over a period not to exceed thirty years.

LANCASTER SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2018

NOTE 9 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (continued)

G. Changes in Total OPEB Liability

	<u>June 30, 2018</u>
Total OPEB Liability	
Service Cost	\$ 2,755,028
Interest on total OPEB liability	1,151,449
Benefits payments	<u>(1,549,063)</u>
Net change in total OPEB liability	2,357,414
Total OPEB liability - beginning	<u>29,736,199</u>
Total OPEB liability - ending	<u>\$ 32,093,613</u>
Covered payroll	\$ 131,229,897
District's total OPEB liability as a percentage of covered payroll	24%

The Lancaster School District has invoked Paragraph 244 of GASB Statement 75 for the transition due to cost constraints. Consequently, in order to determine the beginning total OPEB liability, a “roll-back” technique has been used.

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

The following presents the total OPEB liability of the Lancaster School District, as well as what the District’s total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.80 percent) or one percentage point higher (4.80 percent) than the current discount rate:

	Valuation		
	1% Decrease	Discount Rate	1% Increase
	(2.80%)	(3.80%)	(4.80%)
Total OPEB liability	\$ 34,073,133	\$ 32,093,613	\$ 30,255,434

I. Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following presents the total OPEB liability of the Lancaster School District, as well as what the District’s total OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower (3.00 percent) or one percentage point higher (5.00 percent) than the current healthcare cost trend rate:

	Valuation Trend		
	1% Decrease	Rate	1% Increase
	(3.00%)	(4.00%)	(5.00%)
Total OPEB liability	\$ 30,688,775	\$ 32,093,613	\$ 33,275,433

LANCASTER SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2018

NOTE 9 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (continued)

J. OPEB Expense and Deferred Outflows and Deferred Inflows of Resources Related to OPEB

For the fiscal year ended June 30, 2018, the Lancaster School District recognized OPEB expense of \$2,357,414. At June 30, 2018, the Lancaster School District did not report deferred outflows of resources related to OPEB and deferred inflows of resources related to OPEB from the following sources.

Prior periods of deferred outflows and deferred inflows of resources were not restated due to the fact that prior valuations were not rerun in accordance with Paragraph 244 of GASB Statement 75. It was determined the time and expense necessary to rerun prior valuations and to restate prior financial statements was not justified. In the future, gains and losses related to changes in total OPEB liability will be recognized in OPEB expense systematically over time. The first amortized amounts are recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense. The amortization period differs depending on the source of gain or loss. The difference between projected and actual earnings is amortized on a straight-line basis over five years. All other amounts are amortized on a straight-line basis over the average expected remaining service lives of all members that are provided with benefits (active, inactive, and retired) at the beginning of the measurement period.

NOTE 10 – 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:

	<u>Net pension liability</u>	<u>Deferred outflows related to pensions</u>	<u>Deferred inflows related to pensions</u>	<u>Pension expense</u>
STRS Pension	\$ 113,630,089	\$ 36,884,650	\$ 5,008,177	\$ 12,731,675
PERS Pension	44,560,909	16,765,749	679,379	7,120,608
Total	<u>\$ 158,190,998</u>	<u>\$ 53,650,399</u>	<u>\$ 5,687,556</u>	<u>\$ 19,852,283</u>

A. 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.

LANCASTER SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2018

NOTE 10 – PENSION PLANS (continued)

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

Benefits Provided

The CalSTRS defined benefit plan has two benefit formulas:

1. 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 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.
2. 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 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 10.25% and 9.205% of their salary for fiscal year 2018, 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 2018 was 14.43% of annual payroll. The contribution requirements of the plan members are established by state statute. Contributions to the plan from the District were \$9,791,403 for the year ended June 30, 2018.

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 \$5,466,637 to CalSTRS.

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

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

District's proportionate share of the net pension liability	\$ 113,630,089
State's proportionate share of the net pension liability associated with the District	67,223,149
Total	<u>\$ 180,853,238</u>

LANCASTER SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2018

NOTE 10 – PENSION PLANS (continued)

A. 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)

The net pension liability was measured as of June 30, 2017, 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, 2016 and rolling forward the total pension liability to June 30, 2017. The District’s proportion of the net pension liability was based on a projection of the District’s long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. At June 30, 2017, the District’s proportion was 0.123 percent, which was an increase of 0.001 percent from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the District recognized pension expense of \$12,731,675. In addition, the District recognized pension expense and revenue of \$1,932,084 for support provided by the State. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between projected and actual earnings on plan investments	\$ -	\$ 3,026,286
Differences between expected and actual experience	420,215	1,981,891
Changes in assumptions	21,051,301	-
Changes in proportion and differences between District contributions and proportionate share of contributions	5,621,731	-
District contributions subsequent to the measurement date	9,791,403	-
	<u>\$ 36,884,650</u>	<u>\$ 5,008,177</u>

LANCASTER SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2018

NOTE 10– PENSION PLANS (continued)

A. 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)

The \$9,791,403 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, 2019. 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>
2019	\$ 4,872,960	\$ 2,958,953
2020	4,872,960	(1,463,350)
2021	4,872,960	169,039
2022	4,872,961	3,134,043
2023	3,954,429	209,492
2024	3,646,977	-
	<u>\$ 27,093,247</u>	<u>\$ 5,008,177</u>

Actuarial Assumptions

The total pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2016, and rolling forward the total pension liability to June 30, 2017 using the following actuarial assumptions, applied to all periods included in the measurement:

Consumer Price Inflation	2.75%
Investment Rate of Return*	7.10%
Wage Inflation	3.50%

* 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 MP-2016 series tables adjusted to fit CalSTRS experience.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2010–June 30, 2015.

LANCASTER SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2018

NOTE 10 – PENSION PLANS (continued)

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

Actuarial Assumptions (continued)

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

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return*
Global Equity	47%	6.30%
Fixed Income	12%	0.30%
Real Estate	13%	5.20%
Private Equity	13%	9.30%
Absolute Return/Risk Mitigating Strategies	9%	2.90%
Inflation Sensitive	4%	3.80%
Cash/Liquidity	2%	-1.00%
	100%	

*20-year geometric average

Discount Rate

The discount rate used to measure the total pension liability was 7.10 percent. The projection of cash flows used to determine the discount rate assumed 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 (7.10 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.

LANCASTER SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2018

NOTE 10 – PENSION PLANS (continued)

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

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 7.10 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 (6.10 percent) or 1-percentage-point higher (8.10 percent) than the current rate:

	1% Decrease (6.10%)	Current Discount Rate (7.10%)	1% Increase (8.10%)
District's proportionate share of the net pension liability	\$ 166,845,046	\$ 113,630,089	\$ 70,442,546

Pension Plan Fiduciary Net Position

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

B. 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.

NOTE 10 – PENSION PLANS (*continued*)

B. California Public Employees’ Retirement System (CalPERS) (*continued*)

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 6.5% 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 2018 was 15.531% of annual payroll. Contributions to the plan from the District were \$3,848,733 for the year ended June 30, 2018.

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

At June 30, 2018, the District reported a liability of \$44,560,909 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, 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, 2016 and rolling forward the total pension liability to June 30, 2017. The District’s proportion of the net pension liability was based on a projection of the District’s long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. At June 30, 2017, the District’s proportion was 0.187 percent, which was an increase of 0.008 percent from its proportion measured as of June 30, 2016.

LANCASTER SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2018

NOTE 10 – PENSION PLANS (continued)

B. 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, 2018, the District recognized pension expense of \$7,120,608. At June 30, 2018, 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	\$ 1,541,503	\$ -
Differences between expected and actual experience	1,596,434	-
Changes in assumptions	6,508,822	524,650
Changes in proportion and differences between District contributions and proportionate share of contributions	3,270,257	154,729
District contributions subsequent to the measurement date	3,848,733	-
	<u>\$ 16,765,749</u>	<u>\$ 679,379</u>

The \$3,848,733 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, 2019. 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>
2019	\$ 4,441,217	\$ 679,379
2020	5,465,758	-
2021	3,854,168	-
2022	(844,127)	-
	<u>\$ 12,917,016</u>	<u>\$ 679,379</u>

LANCASTER SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 10 – PENSION PLANS (continued)

B. 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, 2016, and rolling forward the total pension liability to June 30, 2017 using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Discount Rate	7.15%
Salary Increases	Varies by Entry Age and Service

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, 2016, 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 adjusted to account for assumed administrative expenses.

LANCASTER SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2018

NOTE 10 – PENSION PLANS (continued)

B. 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	47.0%	4.90%	5.38%
Fixed Income	19.0%	0.80%	2.27%
Inflation Assets	6.0%	0.60%	1.39%
Private Equity	12.0%	6.60%	6.63%
Real Estate	11.0%	2.80%	5.21%
Infrastructure and Forestland	3.0%	3.90%	5.36%
Liquidity	2.0%	-0.40%	-0.90%
	100.0%		

*An expected inflation of 2.50% used for this period.
 **An expected inflation of 3.00% used for this period.

Discount Rate

The discount rate used to measure the total pension liability was 7.15 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 7.15 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 (6.15 percent) or 1-percentage-point higher (8.15 percent) than the current rate:

	1% Decrease (6.15%)	Current Discount Rate (7.15%)	1% Increase (8.15%)
District's proportionate share of the net pension liability	\$ 65,563,376	\$ 44,560,909	\$ 27,137,603

Pension Plan Fiduciary Net Position

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

LANCASTER SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 11 – 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, 2018.

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, 2018.

C. Construction Commitments

The district had the following remaining construction commitments as of June 30, 2018:

	Remaining Construction Commitments
Capital Projects	
Parview MPR & Plaza Modernization	\$ 4,131,000
Endeavour Gym	5,988,000
Total	<u>\$ 10,119,000</u>

NOTE 12 – 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.

LANCASTER SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2018

NOTE 13 – DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

A. Refunded Debt

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 outflows or inflows of resources in the District-wide financial statements. The deferred outflow 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 outflow 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, 2018, the deferred outflows amount on refunding was \$157,150 and the deferred inflows amount on refunding was \$259,886.

B. Pension Plans

Pursuant to GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, the District recognized deferred outflows of resources related to pensions and deferred inflows of resources related to pensions in the District-wide financial statements. Further information regarding the deferred outflows of resources and deferred inflows of resources can be found at Note 10. At June 30, 2018, total deferred outflows related to pensions was \$53,650,399 and total deferred inflows related to pensions was \$5,687,556.

NOTE 14 – RESTATEMENT OF NET POSITION

The beginning net position of Governmental Activities has been restated in order to record the District’s total OPEB liability and deferred outflows of resources related to OPEB in accordance with GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The effect on beginning net position is presented as follows:

	<u>Governmental Activities</u>
Net Position - Beginning, as Previously Reported	\$ 3,529,491
Restatement	<u>(12,292,882)</u>
Net Position - Beginning, as Restated	<u>\$ (8,763,391)</u>

**REQUIRED SUPPLEMENTARY
INFORMATION**

**LANCASTER SCHOOL DISTRICT
GENERAL FUND – BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2018**

	Budgeted Amounts		Actual* (Budgetary Basis)	Variances - Final to Actual
	Original	Final		
REVENUES				
LCFF sources	\$ 130,654,393	\$ 131,183,020	\$ 133,553,498	\$ 2,370,478
Federal sources	7,939,087	10,734,368	9,751,050	(983,318)
Other state sources	4,064,559	7,175,746	7,388,408	212,662
Other local sources	7,488,183	8,010,866	7,773,113	(237,753)
Total Revenues	150,146,222	157,104,000	158,466,069	1,362,069
EXPENDITURES				
Certificated salaries	67,863,493	70,604,089	69,259,776	1,344,313
Classified salaries	23,287,827	23,885,753	23,172,076	713,677
Employee benefits	36,650,907	37,618,314	36,882,976	735,338
Books and supplies	9,902,316	9,732,704	6,670,069	3,062,635
Services and other operating expenditures	14,702,209	16,075,573	14,586,655	1,488,918
Capital outlay	110,000	241,500	165,237	76,263
Other outgo				
Excluding transfers of indirect costs	950,000	950,000	1,290,609	(340,609)
Transfers of indirect costs	(513,177)	(539,321)	(529,372)	(9,949)
Total Expenditures	152,953,575	158,568,612	151,498,026	7,070,586
Excess (Deficiency) of Revenues				
Over Expenditures	(2,807,353)	(1,464,612)	6,968,043	8,432,655
Other Financing Sources (Uses)				
Transfers in	-	-	3	3
Transfers out	(1,000,000)	(1,000,000)	(1,000,000)	-
Net Financing Sources (Uses)	(1,000,000)	(1,000,000)	(999,997)	3
NET CHANGE IN FUND BALANCE	(3,807,353)	(2,464,612)	5,968,046	8,432,658
Fund Balance - Beginning	15,710,006	15,710,006	15,710,006	-
Fund Balance - Ending	\$ 11,902,653	\$ 13,245,394	\$ 21,678,052	\$ 8,432,658

* 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 reasons:

- On-behalf payments of \$5,466,637 are not included in the actual revenues and expenditures reported in this schedule.
- Actual amounts reported in this schedule are for the General Fund only, and do not agree with the amounts reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances because the amounts on that schedule include the financial activity of the Deferred Maintenance Fund, in accordance with the fund type definitions promulgated by GASB Statement No. 54.

**LANCASTER SCHOOL DISTRICT
SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>June 30, 2018</u>
Total OPEB Liability	
Service Cost	\$ 2,755,028
Interest on total OPEB liability	1,151,449
Benefits payments	<u>(1,549,063)</u>
Net change in total OPEB liability	2,357,414
Total OPEB liability - beginning	<u>29,736,199</u>
Total OPEB liability - ending	<u>\$ 32,093,613</u>
Covered payroll	\$ 131,229,897
District's total OPEB liability as a percentage of covered payroll	 24%

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, 2018**

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
District's proportion of the net pension liability	0.123%	0.122%	0.120%	0.111%
District's proportionate share of the net pension liability	\$ 113,630,089	\$ 99,027,838	\$ 80,580,876	\$ 64,695,681
State's proportionate share of the net pension liability associated with the District	67,223,149	56,383,082	42,618,285	39,066,040
Total	<u>\$ 180,853,238</u>	<u>\$ 155,410,920</u>	<u>\$ 123,199,161</u>	<u>\$ 103,761,721</u>
District's covered payroll	\$ 66,137,928	\$ 61,971,165	\$ 54,687,658	\$ 49,310,594
District's proportionate share of the net pension liability as a percentage of its covered payroll	171.8%	159.8%	147.3%	131.2%
Plan fiduciary net position as a percentage of the total pension liability	69.5%	70.0%	74.0%	76.5%

The amounts presented for each fiscal year were determined as of the year-end that occurred one year prior.

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

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
District's proportion of the net pension liability	0.187%	0.179%	0.173%	0.166%
District's proportionate share of the net pension liability	\$ 44,560,909	\$ 35,428,988	\$ 25,515,732	\$ 18,803,266
District's covered payroll	\$ 23,807,160	\$ 21,524,133	\$ 19,284,955	\$ 17,387,231
District's proportionate share of the net pension liability as a percentage of its covered payroll	187.2%	164.6%	132.3%	108.1%
Plan fiduciary net position as a percentage of the total pension liability	71.9%	73.9%	79.4%	83.4%

The amounts presented for each fiscal year were determined as of the year-end that occurred one year prior.

**LANCASTER SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS - CALSTRS
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Contractually required contribution	\$ 9,791,403	\$ 8,320,151	\$ 6,649,506	\$ 4,800,734
Contributions in relation to the contractually required contribution*	(9,791,403)	(8,320,151)	(6,649,506)	(4,800,734)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 67,854,491	\$ 66,137,928	\$ 61,971,165	\$ 54,687,658
Contributions as a percentage of covered payroll	14.43%	12.58%	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, 2018**

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Contractually required contribution	\$ 3,848,733	\$ 3,306,335	\$ 2,549,964	\$ 2,270,032
Contributions in relation to the contractually required contribution	(3,848,733)	(3,306,335)	(2,549,964)	(2,270,032)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 24,780,974	\$ 23,807,160	\$ 21,524,133	\$ 19,284,955
Contributions as a percentage of covered payroll	15.53%	13.89%	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, 2018**

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 Changes in Total OPEB Liability and Related Ratios

This 10-year schedule is required by GASB Statement No. 75 for all sole and agent employers that provide other postemployment benefits (OPEB). Until a full 10-year trend is compiled, the schedule will only show those years under which GASB Statement No. 75 was applicable. The schedule presents the sources of change in the total OPEB liability, and the components of the total OPEB liability and related ratios, including the total OPEB liability as a percentage of covered-employee 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 payroll, the District's proportionate share (amount) of the collective net pension liability as a percentage of the employer's covered payroll, and the pension plan's fiduciary net position as a percentage of the total pension liability.

Changes in Benefit Terms

There were no changes in benefit terms since the previous valuations for CalSTRS and CalPERS.

Changes in Assumptions

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

**LANCASTER SCHOOL DISTRICT
 NOTES TO REQUIRED SUPPLEMENTARY INFORMATION, continued
 FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 1 – PURPOSE OF SCHEDULES (continued)

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 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 payroll.

NOTE 2 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended June 30, 2018, the District incurred an excess of expenditures over appropriations in individual major funds presented in the Budgetary Comparison Schedule by major object code.

	<u>Expenditures and Other Uses</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Excess</u>
General Fund			
Other outgo			
Excluding transfers of indirect costs	\$ 950,000	\$ 1,290,609	\$ 340,609

**SUPPLEMENTARY
INFORMATION**

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

Federal Grantor/Pass-Through Grantor/Program or Cluster	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U. S. DEPARTMENT OF EDUCATION:			
<i>Passed through California Department of Education:</i>			
Title I, Part A, Basic Grants Low-Income and Neglected [1]	84.010	14329	\$ 5,353,853
Title I, Migrant Education	84.011	14838	110,597
Title II, Part A, Teacher Quality	84.367	14341	521,140
Title III			
Title III, English Learner Student Program	84.365	14346	264,515
Title III, Immigrant Education Program	84.365	15146	2,018
Subtotal Title III			<u>266,533</u>
Special Education Cluster			
IDEA Basic Local Assistance Entitlement, Part B, Sec 611	84.027	13379	2,401,776
IDEA Preschool Grants, Part B, Section 619 (Age 3-4-5)	84.173	13430	552,809
IDEA Supporting Inclusive Practices	84.027A	13693	20,947
IDEA Preschool Staff Development, Part B, Sec 619	84.173A	13431	927
Subtotal Special Education Cluster			<u>2,976,459</u>
Title X McKinney-Vento Homeless Children Assistance Grants	84.196	14332	2,100
Elementary and Secondary School Counseling Grant	84.215E	*	276,361
Total U. S. Department of Education			<u><u>9,507,043</u></u>
U. S. DEPARTMENT OF AGRICULTURE:			
<i>Passed through California Department of Education:</i>			
Child Nutrition Cluster			
School Breakfast Program - Basic	10.553	13525	4,583
School Breakfast Program - Needy	10.553	13526	1,083,103
National School Lunch Program	10.555	13391	5,159,414
USDA Commodities	10.555	*	541,192
Special Milk Program for Children	10.556	13392	111,968
Subtotal Child Nutrition Cluster			<u>6,900,260</u>
Total U. S. Department of Agriculture			<u><u>6,900,260</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	159,258
Medi-Cal Administrative Activities	93.778	10060	97,519
Subtotal Medicaid			<u>256,777</u>
Total U. S. Department of Health & Human Services			<u>256,777</u>
Total Federal Expenditures			<u><u>\$ 16,664,080</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, 2018**

	Second Period Report <FB99BE22>	Annual Report <120C3173>
SCHOOL DISTRICT		
TK/K through Third		
Regular ADA	5,994.61	5,972.28
Extended Year Special Education	5.33	5.33
Special Education - Nonpublic Schools	0.85	0.79
Extended Year Special Education - Nonpublic Schools	0.16	0.16
Community Day School	9.78	9.92
Total TK/K through Third	6,010.73	5,988.48
Fourth through Sixth		
Regular ADA	4,386.54	4,358.50
Extended Year Special Education	3.37	3.37
Special Education - Nonpublic Schools	0.05	0.25
Community Day School	15.66	16.85
Total Fourth through Sixth	4,405.62	4,378.97
Seventh through Eighth		
Regular ADA	2,783.68	2,755.33
Extended Year Special Education	2.47	2.47
Special Education - Nonpublic Schools	0.84	0.88
Extended Year Special Education - Nonpublic Schools	0.22	0.22
Community Day School	25.53	28.92
Total Seventh through Eighth	2,812.74	2,787.82
TOTAL SCHOOL DISTRICT	13,229.09	13,155.27

See accompanying note to supplementary information.

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

Grade Level	Minutes Requirement	2017-18 Actual Minutes	Number of Days	Status
Kindergarten	36,000	53,507	180	Complied
Grade 1	50,400	53,785	180	Complied
Grade 2	50,400	53,785	180	Complied
Grade 3	50,400	53,785	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	58,064	180	Complied
Grade 8	54,000	58,064	180	Complied

See accompanying note to supplementary information.

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

	2019 (Budget)	2018	2017	2016
General Fund - Budgetary Basis**				
Revenues And Other Financing Sources	\$ 165,822,089	\$ 158,466,072	\$ 151,605,711	\$ 148,622,468
Expenditures And Other Financing Uses	169,434,777	152,498,026	156,274,368	142,207,346
Net change in Fund Balance	\$ (3,612,688)	\$ 5,968,046	\$ (4,668,657)	\$ 6,415,122
Ending Fund Balance	\$ 18,065,364	\$ 21,678,052	\$ 15,710,006	\$ 20,378,663
Available Reserves*	\$ 17,408,791	\$ 19,578,838	\$ 14,179,904	\$ 14,815,403
Available Reserves As A Percentage Of Outgo	10.27%	12.84%	9.07%	10.42%
Long-term Debt	\$ 268,428,357	\$ 270,813,476	\$ 221,952,419	\$ 192,051,455
Average Daily Attendance At P-2	13,179	13,229	13,366	13,449

The General Fund balance has increased by \$1,299,389 over the past two years. The fiscal year 2018-19 budget projects a decrease of \$3,612,688. 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 surpluses in two of the past three years. The District anticipates incurring an operating deficit during the 2018-19 fiscal year. Total long-term obligations have increased by \$78,762,021 over the past two years.

Average daily attendance has decreased by 220 ADA over the past two years. A decrease by 50 ADA is anticipated during the 2018-19 fiscal year.

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

**The actual amounts reported in this schedule are for the General Fund only, and do not agree with the amounts reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances because the amounts on that schedule include the financial activity of the Deferred Maintenance Fund, in accordance with the fund type definitions promulgated by GASB Statement No. 54.

On-behalf payments of \$5,446,637 are not included in the actual revenues and expenditures reported in this schedule.

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

	General Fund	Deferred Maintenance Fund
June 30, 2018, annual financial and budget report fund balance	\$ 21,678,052	\$ 1,921,893
Adjustments and reclassifications:		
Increase (decrease) in total fund balances:		
Fund balance transfer (GASB 54)	1,921,893	(1,921,893)
Net adjustments and reclassifications	1,921,893	(1,921,893)
June 30, 2018, audited financial statement fund balance	<u>\$ 23,599,945</u>	<u>\$ -</u>

See accompanying note to supplementary information.

**LANCASTER SCHOOL DISTRICT
SCHEDULE OF CHARTER SCHOOLS
FOR THE YEAR ENDED JUNE 30, 2018**

Charter #	Charter School	Status	Included in Audit Report
1376	iLEAD Lancaster Charter	Active	No
1225	Life Source International Charter	Active	No

See accompanying note to supplementary information.

**LANCASTER SCHOOL DISTRICT
COMBINING BALANCE SHEET
JUNE 30, 2018**

	Child Development Fund	Cafeteria Fund	Capital Facilities Fund	County School Facilities Fund	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
ASSETS									
Cash and investments	\$ -	\$ 3,817,619	\$ 1,713,135	\$ 1,253,420	\$ 98	\$ 4,809,405	\$ 1,337,848	\$ 96,668	\$ 13,028,193
Accounts receivable	495,277	1,006,329	8,735	7,159	-	-	6,553	461	1,524,514
Stores inventory	-	148,716	-	-	-	-	-	-	148,716
Total Assets	\$ 495,277	\$ 4,972,664	\$ 1,721,870	\$ 1,260,579	\$ 98	\$ 4,809,405	\$ 1,344,401	\$ 97,129	\$ 14,701,423
LIABILITIES									
Deficit cash	\$ 18,486	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 18,486
Accrued liabilities	102,037	133,856	-	-	-	-	16,787	-	252,680
Total Liabilities	120,523	133,856	-	-	-	-	16,787	-	271,166
FUND BALANCES									
Non-spendable	-	443,544	-	-	-	-	-	-	443,544
Restricted	372,874	4,292,491	1,721,870	1,260,579	98	4,809,405	1,327,614	97,129	13,882,060
Assigned	1,880	102,773	-	-	-	-	-	-	104,653
Total Fund Balances	374,754	4,838,808	1,721,870	1,260,579	98	4,809,405	1,327,614	97,129	14,430,257
Total Liabilities and Fund Balance	\$ 495,277	\$ 4,972,664	\$ 1,721,870	\$ 1,260,579	\$ 98	\$ 4,809,405	\$ 1,344,401	\$ 97,129	\$ 14,701,423

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, 2018**

	Child Development Fund	Cafeteria Fund	Capital Facilities Fund	County School Facilities Fund	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
REVENUES									
Federal sources	\$ -	\$ 6,900,260	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,900,260
Other state sources	3,430,933	479,532	-	323,472	-	53,592	-	-	4,287,529
Other local sources	5,067	408,023	680,322	20,211	3	5,192,636	785,895	1,309	7,093,466
Total Revenues	3,436,000	7,787,815	680,322	343,683	3	5,246,228	785,895	1,309	18,281,255
EXPENDITURES									
Current									
Instruction	2,431,183	-	-	-	-	-	-	-	2,431,183
Instruction-related services									
Instructional supervision and administration	400,605	-	-	-	-	-	-	-	400,605
School site administration	218,774	-	-	-	-	-	-	-	218,774
Pupil services									
Food services	20,154	7,341,301	-	-	-	-	-	-	7,361,455
All other pupil services	35,877	-	-	-	-	-	-	-	35,877
General administration									
All other general administration	172,147	357,225	-	-	-	-	-	-	529,372
Plant services	9,963	-	-	-	-	-	-	-	9,963
Facilities acquisition and maintenance	-	-	49,066	297,522	-	-	-	-	346,588
Debt service									
Principal	-	-	-	-	-	2,417,836	130,000	-	2,547,836
Interest and other	-	-	-	-	199	2,216,867	586,971	5,360	2,809,397
Total Expenditures	3,288,703	7,698,526	49,066	297,522	199	4,634,703	716,971	5,360	16,691,050
Excess (Deficiency) of Revenues									
Over Expenditures	147,297	89,289	631,256	46,161	(196)	611,525	68,924	(4,051)	1,590,205
Other Financing Sources (Uses)									
Other sources	-	-	-	-	-	340,342	8,066,482	-	8,406,824
Other uses	-	-	-	-	-	-	(7,742,150)	-	(7,742,150)
Net Financing Sources (Uses)	-	-	-	-	-	340,342	324,332	-	664,674
NET CHANGE IN FUND BALANCE	147,297	89,289	631,256	46,161	(196)	951,867	393,256	(4,051)	2,254,879
Fund Balance - Beginning	227,457	4,749,519	1,090,614	1,214,418	294	3,857,538	934,358	101,180	12,175,378
Fund Balance - Ending	\$ 374,754	\$ 4,838,808	\$ 1,721,870	\$ 1,260,579	\$ 98	\$ 4,809,405	\$ 1,327,614	\$ 97,129	\$ 14,430,257

See accompanying note to supplementary information.

**LANCASTER SCHOOL DISTRICT
 LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
 FOR THE YEAR ENDED JUNE 30, 2018**

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

Member	Office	Term Expires
Sandra Price	President	November 2018
Gregory Tepe	Vice President	November 2020
Keith Giles	Clerk	November 2020
Diana Grooms	Member	November 2018
Duane Winn	Member	November 2018

DISTRICT ADMINISTRATORS

Dr. Michele Bowers
Superintendent

Dr. Larry Freise
Assistant Superintendent, Business Services

Bart Hoffman
Assistant Superintendent, Educational Services

Lexy Conte
Deputy Superintendent, Human Resources Services

**LANCASTER SCHOOL DISTRICT
 NOTES TO SUPPLEMENTARY INFORMATION
 JUNE 30, 2018**

NOTE 1 – PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

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

The 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, 2018 or Federal funds that have been recorded as revenues in the current year and were not expended by June 30, 2018. 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		\$ 16,651,310
Medi-Cal Billing Option	93.778	<u>12,770</u>
Total Expenditures reported in the Schedule of Expenditures of Federal Awards		<u>\$16,664,080</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, 2018, the District participated in the Longer Day incentive funding program. As of June 30, 2018, 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, 2018

NOTE 1 – PURPOSE OF SCHEDULES (*continued*)

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.

**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**

Christy White, CPA

Michael D. Ash, CPA

John Whitehouse, CPA

Heather Daud Rubio

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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, 2018, 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 10, 2018.

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.

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

A handwritten signature in cursive script that reads "Christy White Associates".

San Diego, California
December 10, 2018

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 D. Ash, CPA

John Whitehouse, CPA

Heather Daud 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, 2018. 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.

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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, 2018.

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.



San Diego, California
December 10, 2018

REPORT ON STATE COMPLIANCE

Independent Auditors' Report

Christy White, CPA

Michael D. Ash, CPA

John Whitehouse, CPA

Heather Daud 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 *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed in Title 5, *California Code of Regulations*, section 19810, that could have a direct and material effect on each of Lancaster School District's state programs for the fiscal year ended June 30, 2018, 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 *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed in Title 5, *California Code of Regulations*, section 19810. 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.

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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, 2018.

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 items #2018-001 and #2018-002. 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:

PROGRAM NAME	PROCEDURES PERFORMED
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	Not Applicable
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	Not Applicable
Middle or Early College High Schools	Not Applicable
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
Apprenticeship: Related and Supplemental Instruction	Not Applicable
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes

(continued on next page)

Procedures Performed (continued)

PROGRAM NAME	PROCEDURES PERFORMED
After/Before 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
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.

Christy White Associates

San Diego, California
December 10, 2018

**SCHEDULE OF FINDINGS
AND QUESTIONED COSTS**

**LANCASTER SCHOOL DISTRICT
SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2018**

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>None Reported</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>
84.010	Title I, Part A

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, 2018

FIVE DIGIT CODE

20000
30000
60000

AB 3627 FINDING TYPE

Inventory of Equipment
Internal Control
Miscellaneous

There were no financial statements findings or questioned costs for the year ended June 30, 2018.

LANCASTER SCHOOL DISTRICT
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018

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, 2018.

**LANCASTER SCHOOL DISTRICT
STATE AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

<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 #2018-001 – UNDUPLICATED LOCAL CONTROL FUNDING FORMULA PUPIL COUNTS (40000)

Criteria: Students classified as English Learners, or Free or Reduced-Price Meals eligible and who are not directly certified on the CALPADS 1.18 FRPM/English Learner/Foster Youth – Student List Report must have supporting documentation that indicates the student was eligible for the designation. Auditors are required to verify compliance with Education Code Section 42238.02(b)(3)(b) in Section W of the *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*.

Condition: 1 of 85 students tested from the CALPADS 1.18 FRPM/English Learner/Foster Youth – Student List Report who was classified as Free or Reduced Priced Meals (FRPM) had a lunch application on file that did not match their designation.

Cause: Incorrect designation of student due to oversight by the District.

Effect: The District is not in compliance with State requirements. The error was extrapolated over the FRPM student population and the total extrapolated error resulted in 12 students.

Context: 1 of 85 students report in the District’s Unduplicated Pupil Count as reduced should have been classified as paid.

Questioned Cost: \$6,142, as calculated on next page.

**LANCASTER SCHOOL DISTRICT
STATE AWARD FINDINGS AND QUESTIONED COSTS, continued
FOR THE YEAR ENDED JUNE 30, 2018**

**FINDING #2018-001 – UNDUPLICATED LOCAL CONTROL FUNDING FORMULA PUPIL COUNTS (40000)
(continued)**

UPP Audit Adjustment					
1	Total Adjusted Enrollment from the UPP exhibit as of P-2			42,370	
2	Total Adjusted Unduplicated Pupil Count from the UPP exhibit as of P			36,262	
3	Audit Adjustment - Number of Enrollment			-	
4	Audit Adjustment - Number of Unduplicated Pupil Count			(12)	
5	Revised Adjusted Enrollment			42,370	
6	Revised Adjusted Unduplicated Pupil Count			36,250	
7	UPP calculated as of P-2			0.8558	
8	Revised UPP for audit finding			0.8556	
9	Charter Schools Only: Determinative School District Concentration Ca				
10	Revised UPP adjusted for Concentration Cap			0.8556	
LCFF Target Supplemental Grant Funding Audit Adjustment		TK/K-3	4-6	7-8	9-12
11	Supplemental and Concentration Grant ADA	6,065.48	4,425.21	2,877.78	0.00
12	Adjusted Base Grant per ADA	\$7,941	\$7,301	\$7,518	\$8,939
13	Target Supplemental Grant Funding calculated as of P-2				\$17,477,077
14	Revised Target Supplemental Grant Funding for audit finding				\$17,472,992
15	Target Supplemental Grant Funding audit adjustment				(\$4,085)
LCFF Target Concentration Grant Funding Audit Adjustment					
16	Target Concentration Grant Funding calculated as of P-2				\$15,612,555
17	Revised Target Concentration Grant Funding for audit finding				\$15,602,344
18	Target Concentration Grant Funding audit adjustment				(\$10,211)
Estimated Cost of Unduplicated Pupil Count Audit Adjustment for LEAs funded at LCFF Target					
19	Total Target Supplemental and Concentration audit adjustment				(\$14,296)
Estimated Cost of Unduplicated Pupil Count Audit Adjustment for LEAs funded on LCFF Floor and Gap					
20	Statewide Gap Funding Rate as of P-2				0.4296644273
21	Estimated Cost of Unduplicated Pupil Count audit adjustment				(\$6,142)

Recommendation: We recommend that the District ensure that all students listed as FRPM in the CALPADS 1.18 FRPM/English Learner/Foster Youth – Student List Report have proper documentation to support their CALPADS designation and are properly designated in a timely manner.

Corrective Action Plan: One Source will pull 3% of our applications for verification on October 1st. The records that have been written into PowerSchool will be verified for accuracy on November 15th, the date verification ends. The record for any student losing Free or Reduced lunch status due to either none response or by not meeting the income requirements, will have an end date entered into PowerSchool in the Lunch Program Eligibility section. The end date indicates the date the free or reduced lunch benefit ended. Any changes to student’s accounts will be done on November 15th.

LANCASTER SCHOOL DISTRICT
STATE AWARD FINDINGS AND QUESTIONED COSTS, *continued*
FOR THE YEAR ENDED JUNE 30, 2018

FINDING #2018-002 – AFTER SCHOOL EDUCATION AND SAFETY (ASES) PROGRAM (40000)

Criteria: Per Education Code Section 8483.7(a)(1)(A), each school that establishes a program pursuant to this article is subject to semiannual attendance reporting requirements. Amounts reported to the California Department of Education for the semi-annual attendance reports should be supported by written contemporaneous documentation that is accurate and reported in accordance with the related sections of Education Code 8483.

Condition: During the testing of ASES program attendance for the 1st Half Base Attendance reporting period, we noted the following discrepancy based on reconciliation of students served by site for the period of August 1, 2017 through December 31, 2017:

- Discovery Elementary School’s attendance total for the month of October was 1,423 students per detail but the sign in/out sheets had 1,424 students.
- Sunnydale Elementary School’s attendance total for the month of October was 1,325 students per detail but the sign in/out sheets had 1,346 students

Effect: The result is an incorrect number of students served on the 1st Half Base attendance report and an understatement of 22 students. The total students served amount that was originally reported (63,972), should be revised to 63,994.

Cause: The reason for this error in reporting appears to be a clerical error of transposing numbers during entry into the 1st Half Base attendance report.

Questioned Costs None. The ASES program funding is not affected if the pupil participation level is maintained at 85% of the projected attendance or greater. Since the finding noted a net understatement of 22 student days of attendance, program attendance did not fall below 85% of the target annual attendance; therefore, there are no questioned costs.

Recommendation: The District should implement procedures to allow for proper review and analysis of attendance reports prior to submitting future reports.

Corrective Action Plan: The process for determining reported attendance numbers has been updated to include the manual check, monthly, of each student in the after-school program. The process originally consisted of the pulling of reports through PowerSchool based on monthly add-ins, however, this process was insufficient as it missed a student who was added singularly mid-month. We have corrected this process to include a manual double-check that integrates the monthly reports and sign-in sheets in order to better capture all students who have been in the program. Our goal is to correctly identify and obtain all information in order to create streamlined processes and better report accurate attendance numbers.

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

FINDING #2017-001: 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.

Effect: Appears to be a potential misstatement of the Cafeteria Fund and improperly reflected balances as of June 30, 2017.

Perspective: Through our testing and substantive procedures we noted current assets, current liabilities, and equity were improperly stated. For current assets, we noted a material variance in cash in banks' balance. For current liabilities, we noted a material variance in the accounts payable balance. The current liabilities and current assets balance are improperly stated due to an incorrect booking of direct cost by the Cafeteria Department. We noted a variance in equity and 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: In lieu of the fact that LACOE is switching to a new accounting software in the very near future, the Cafeteria department will remain on their own accounting software and inputting into Peoplesoft on a monthly basis instead of on an annual basis. At year-end the Cafeteria department will be required to provide the Business department with back-up documentation on all account balances. In the event that there is not significant improvements in 2017-18 fiscal year, the district will require the Cafeteria department to go into Peoplesoft 100% in 2018-19. The Cafeteria department will however go into LACOE's new accounting System (BEST) when the District transitions in 2019-20. District will review the situation with auditors at the close of the 2017-18 fiscal year.

Current Status: Implemented.