

**SULPHUR SPRINGS UNION  
SCHOOL DISTRICT**

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ANNUAL FINANCIAL REPORT

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**JUNE 30, 2018**

# SULPHUR SPRINGS UNION SCHOOL DISTRICT

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***FINANCIAL SECTION***

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

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## INDEPENDENT AUDITOR'S REPORT

Governing Board  
Sulphur Springs Union School District  
Canyon Country, 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 Sulphur Springs Union School District (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

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

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

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

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

## ***Opinions***

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

## ***Emphasis of Matter - Change in Accounting Principles***

As discussed in Note 1 and Note 17 to the financial statements, in 2018, the District adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 14, budgetary comparison schedule on page 64, schedule of changes in the District's total OPEB liability and related ratios on page 65, schedule of the District's proportionate share of the net pension liability on page 66, and the schedule of District contributions on page 67, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Sulphur Springs Union School District's basic financial statements. The accompanying supplementary information such as the combining and individual non-major fund financial statements and Schedule of Expenditures of Federal Awards, as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* and the other supplementary information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

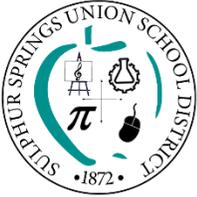
The accompanying supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2018, on our consideration of the Sulphur Springs Union School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Sulphur Springs Union School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Sulphur Springs Union School District's internal control over financial reporting and compliance.

*Savinik, Inc., Day & Co., LLP*

Rancho Cucamonga, California  
November 27, 2018



# Sulphur Springs Union School District

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This section of Sulphur Springs Union School District's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2018, with comparative information for the year ending June 30, 2017. Please read it in conjunction with the District's financial statements, which immediately follow this section.

## OVERVIEW OF THE FINANCIAL STATEMENTS

### The Financial Statements

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

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

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

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

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

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

The Primary unit of the government is the Sulphur Springs Union School District.

# SULPHUR SPRINGS UNION SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

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### INTRODUCTION

Sulphur Springs Union School District serves approximately 5,394 students. Our nine elementary schools provide education for grades preschool through sixth. The dedicated staff of the Sulphur Springs Union School District supports learning that ensures all children an equal opportunity to achieve academic excellence through high quality, standards-based instruction in a safe, secure, and nurturing environment. Learning is supported through appropriate allocation and monitoring of fiscal resources to prepare students to work and function in a diverse, technologically dynamic world.

### **The Statement of Net Position and the Statement of Activities**

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

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

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

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

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

# SULPHUR SPRINGS UNION SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

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### REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

#### **Fund Financial Statements**

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

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

### THE DISTRICT AS A TRUSTEE

#### **Reporting the District's Fiduciary Responsibilities**

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

# SULPHUR SPRINGS UNION SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

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### THE DISTRICT AS A WHOLE

#### Net Position

Net position represents the calculated fiscal position of the District as a residual from assets and deferred outflows of resources minus liabilities and deferred inflows of resources. This calculation includes actuarial estimates of future obligations including estimated pension and post-employment benefits. The District's net position (deficit) was \$(29,209,837) for the fiscal year ended June 30, 2018. Of this amount, \$(55,187,191) was unrestricted deficit. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the governing board's ability to use those net positions for day-to-day operations.

Our analysis below, in summary form, focuses on the net position (Table 1) and change in net position (Table 2) of the District's governmental activities.

**Table 1**

	Governmental Activities	
		(as Restated)
	2018	2017
<b>Assets</b>		
Current and other assets	\$ 28,470,452	\$ 29,944,496
Capital assets	86,745,874	87,583,539
<b>Total Assets</b>	<b>115,216,326</b>	<b>117,528,035</b>
<b>Deferred Outflows of Resources</b>	<b>14,488,268</b>	<b>9,582,149</b>
<b>Liabilities</b>		
Current liabilities	3,101,881	5,099,239
Long-term obligations	96,803,228	96,591,931
Aggregate net pension liability	50,223,237	46,468,619
<b>Total Liabilities</b>	<b>150,128,346</b>	<b>148,159,789</b>
<b>Deferred Inflows of Resources</b>	<b>8,786,085</b>	<b>6,872,158</b>
<b>Net Position</b>		
Net investment in capital assets	20,521,819	21,912,313
Restricted	5,455,535	4,936,856
Unrestricted	(55,187,191)	(54,770,932)
<b>Total Net Position</b>	<b>\$ (29,209,837)</b>	<b>\$ (27,921,763)</b>

The \$(55,187,191) in unrestricted deficit net position of governmental activities represents the accumulated results of all past years' operations. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – decreased by 0.8 percent (\$(55,187,191) compared to \$(54,770,932)).

# SULPHUR SPRINGS UNION SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

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### Changes in Net Position

The results of this year's operations for the District as a whole are reported in the *Statement of Activities* on page 16. Table 2 takes the information from the Statement and rearranges them slightly so you can see our total revenues for the year.

**Table 2**

	Governmental Activities	
	2018	2017
<b>Revenues</b>		
Program revenues:		
Charges for services	\$ 3,248,035	\$ 2,517,929
Operating grants and contributions	9,291,689	9,136,757
General revenues:		
Federal and State aid not restricted	32,836,979	32,501,601
Property taxes	14,737,761	14,675,943
Other general revenues	2,726,312	2,613,778
<b>Total Revenues</b>	<b>62,840,776</b>	<b>61,446,008</b>
<b>Expenses</b>		
Instruction-related	43,924,071	44,602,513
Pupil services	4,282,624	4,229,863
Administration	4,845,523	4,298,373
Plant services	6,624,386	6,310,928
Other	4,452,246	4,799,747
<b>Total Expenses</b>	<b>64,128,850</b>	<b>64,241,424</b>
<b>Change in Net Position</b>	<b>\$ (1,288,074)</b>	<b>\$ (2,795,416)</b>

# SULPHUR SPRINGS UNION SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

**JUNE 30, 2018**

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### Governmental Activities

As reported in the *Statement of Activities* on page 16, the cost of all of our governmental activities this year was \$64,128,850. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$14,737,761, because the cost was paid by those who benefited from the programs, \$3,248,035, or by other governments and organizations who subsidized certain programs with grants and contributions, \$9,291,689. We paid for the remaining "public benefit" portion of our governmental activities with \$32,836,979, in Federal and State unrestricted funds, and with other revenues, like interest and general entitlements of \$2,726,312.

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

**Table 3**

	Total Cost of Services		Net Cost of Services	
	2018	2017	2018	2017
Instruction	\$ 43,924,071	\$ 44,602,513	\$ 34,043,291	\$ 41,952,492
Pupil services	4,282,624	4,229,863	3,284,302	3,127,351
Administration	4,845,523	4,298,373	4,529,399	3,979,189
Plant services	6,624,386	6,310,928	6,025,598	6,188,898
Other	4,452,246	4,799,747	3,706,536	4,799,747
<b>Total</b>	<b>\$ 64,128,850</b>	<b>\$ 64,241,424</b>	<b>\$ 51,589,126</b>	<b>\$ 60,047,677</b>

**SULPHUR SPRINGS UNION SCHOOL DISTRICT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2018**

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**THE DISTRICT'S FUNDS**

As the District completed this year, our governmental funds reported a combined fund balance of \$26,196,832, which is an increase of \$613,886 from last year (Table 4).

**Table 4**

	Balances and Activity			
	July 1, 2017	Revenues	Expenditures	June 30, 2018
General Fund	\$ 8,675,576	\$ 57,015,686	\$ 56,719,193	\$ 8,972,069
Building Fund	10,335,378	158,098	871,479	9,621,997
Capital Facilities Fund	1,938,527	1,369,476	156,409	3,151,594
Capital Project Fund for Blended Component Units	1,284,321	332,323	315,881	1,300,763
Child Development Fund	81,481	683,628	719,682	45,427
Deferred Maintenance Fund	100,948	102,660	-	203,608
Bond Interest and Redemption Fund	2,251,487	1,943,507	2,023,955	2,171,039
COP Debt Service Fund	915,228	1,464,482	1,649,375	730,335
<b>Total</b>	<b>\$ 25,582,946</b>	<b>\$ 63,069,860</b>	<b>\$ 62,455,974</b>	<b>\$ 26,196,832</b>

Our General Fund is our principal operating fund. The fund balance in the General Fund increased \$300,000 to \$9.0 million. This increase is due to:

1. One-time revenue in the form of prior-year state and federal program reimbursements.
2. Continued implementation of the Local Control Funding Formula

The Deferred Maintenance fund reflects an increased balance over prior year as the District has begun to contribute to this fund in anticipation of future deferred maintenance needs such as roofing and paving projects.

The Building Fund reflects a decrease in balance due to the Pinetree Community School modernization project which began construction in the 2017- 2018 fiscal year.

# SULPHUR SPRINGS UNION SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

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### General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. (A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in our annual report on page 64).

- Revenue revisions made to the 2017-2018 Budget were due to increased prior-year reimbursements for state and federal programs such as One-time Revenue, Mandate Costs and Medi-Cal Administrative Activities.
- Revenues and expenditures increased in the District's state restricted program by \$600,000 to reflect the apportionment of revenue and disbursement of expenditures for the Proposition 39 Clean Energy Jobs Act energy efficiency project. This project installed energy efficient lighting upgrades throughout the District.

### CAPITAL ASSET AND DEBT ADMINISTRATION

#### Capital Assets

At June 30, 2018, the District had \$86,745,874, in a broad range of capital assets (net of depreciation), including land, buildings, furniture, and equipment. This amount represents a net increase (including additions, deductions, and depreciation) of \$873,665 or 1.0 percent, from last year (Table 5).

**Table 5**

	Governmental Activities	
	2018	2017
Land	\$ 11,972,356	\$ 11,972,356
Construction in progress	155,817	147,180
Land improvements	267,279	304,713
Buildings and improvements	74,041,673	74,832,708
Furniture and equipment	308,749	326,582
<b>Total</b>	<b>\$ 86,745,874</b>	<b>\$ 87,583,539</b>

# SULPHUR SPRINGS UNION SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

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### Long-Term Obligations

At the end of this year, the District had \$96,803,228, in long-term obligations versus \$96,591,931 last year, an increase of 0.2 percent. See Note 9 for more details on long-term obligations.

**Table 6**

	Governmental Activities	
	2018	(as Restated) 2017
General obligation bonds	\$ 48,781,029	\$ 48,763,447
Premium on general obligation bonds	3,325,919	3,449,442
Discount on general obligation bonds	(150,167)	(156,603)
Certificates of participation	25,375,000	25,375,000
Net other postemployment benefits (OPEB) liability	16,740,494	16,296,980
Compensated absences	354,708	322,806
Supplemental early retirement plans	1,859,284	1,506,937
Textbook purchase agreement	516,961	1,033,922
<b>Total</b>	<b>\$ 96,803,228</b>	<b>\$ 96,591,931</b>

### Net Pension Liability (NPL)

At year-end, the District had a net pension liability of \$50,223,237, as compared to prior year's net pension liability of \$46,468,619, an increase of \$3,754,618.

### ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

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

#### ADA Assumptions

- Average Daily Attendance has reflected a modest decline each year over the past several fiscal years resulting from a decline in enrollment. Residential development in the area promises to slow or reverse this trend. The 2018-2019 ADA for the Local Control Funding Formula calculation is estimated at \$5,188.51.

# SULPHUR SPRINGS UNION SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

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### Revenue Assumptions

- Local Control Funding Formula (LCFF) calculations include: 3.00 percent Cost of Living Adjustment (COLA). The total LCFF budgeted revenue reflected in the Adopted Budget is \$46,303,823.
- Other State Revenues include:  
Lottery, budgeted using the following per ADA factors:
  - Unrestricted Lottery - \$146 per ADA.
  - Restricted Lottery - \$48 per ADA.
- Mandated Cost Reimbursement Block Grant, budgeted at \$31.16 per student ADA for a total of \$161,321.
- Federal categorical revenues have been adopted at or below the 2017-2018 funding levels to allow for other program changes.

### Expenditure Assumptions

- For the Adopted Budget, step and column increases have been provided for all applicable contract positions, with no projected increase for salary and benefits.
- All Federal, State, and local categorical grant programs are budgeted with expenditures equaling revenues. Entitlement programs are budgeted for expenditures equaling the sum of current year revenues and restricted fund balances.

### Fund Balance

- Ending fund balance is projected to be \$8.3 million, which includes a Reserve for Economic Uncertainties of \$1.76 million based on the District's 2018-2019 Adopted Budget.

### Multi-Year Projection

- A positive ending fund balance is projected for the 2018-2019 and two subsequent fiscal years.

### CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, 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 Gretchen Bergstrom, Assistant Superintendent of Business Services, at Sulphur Springs Union School District, 27000 Weyerhaeuser Way, Canyon Country, California, 91351, or e-mail at [gbergstrom@sssd.k12.ca.us](mailto:gbergstrom@sssd.k12.ca.us).

# SULPHUR SPRINGS UNION SCHOOL DISTRICT

## STATEMENT OF NET POSITION JUNE 30, 2018

	<b>Governmental Activities</b>
<b>ASSETS</b>	
Deposits and investments	\$ 26,064,680
Receivables	2,332,080
Stores inventories	73,692
Capital assets	
Land and construction in progress	12,128,173
Other capital assets	111,948,838
Less: accumulated depreciation	(37,331,137)
Total Capital Assets	<u>86,745,874</u>
<b>Total Assets</b>	<u>115,216,326</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred outflows of resources related to pensions	<u>14,488,268</u>
<b>LIABILITIES</b>	
Accounts payable	2,273,620
Accrued interest payable	828,261
Long-term obligations:	
Current portion of long-term obligations other than pensions	1,117,182
Noncurrent portion of long-term obligations other than pensions	95,686,046
Total Long-Term Obligations	<u>96,803,228</u>
Aggregate net pension liability	<u>50,223,237</u>
<b>Total Liabilities</b>	<u>150,128,346</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred inflows of resources related to pensions	<u>8,786,085</u>
<b>NET POSITION</b>	
Net investment in capital assets	20,521,819
Restricted for:	
Debt service	2,073,113
Capital projects	3,151,594
Educational programs	187,192
Other activities	43,636
Unrestricted	(55,187,191)
<b>Total Net Position</b>	<u><u>\$ (29,209,837)</u></u>

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

# SULPHUR SPRINGS UNION SCHOOL DISTRICT

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

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenues and Changes in Net Position
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
<b>Governmental Activities:</b>				
Instruction	\$ 38,628,901	\$ 2,531,523	\$ 6,522,667	\$ (29,574,711)
Instruction-related activities:				
Supervision of instruction	1,497,309	48,809	540,157	(908,343)
Instructional library, media, and technology	560,930	-	334	(560,596)
School site administration	3,236,931	35,566	201,724	(2,999,641)
Pupil services:				
Home-to-school transportation	1,458,776	137	6,651	(1,451,988)
Food services	4,898	-	4,845	(53)
All other pupil services	2,818,950	339,642	647,047	(1,832,261)
Administration:				
Data processing	638,272	-	-	(638,272)
All other administration	4,207,251	178,635	137,489	(3,891,127)
Plant services	6,624,386	17,481	581,307	(6,025,598)
Ancillary services	196,872	-	188,203	(8,669)
Interest on long-term obligations	3,763,137	-	-	(3,763,137)
Other outgo	492,237	96,242	461,265	65,270
<b>Total Governmental Activities</b>	<b>\$ 64,128,850</b>	<b>\$ 3,248,035</b>	<b>\$ 9,291,689</b>	<b>(51,589,126)</b>
General revenues and subventions:				
				12,826,096
				1,892,332
				19,333
				32,836,979
				425,521
				2,300,791
			<b>Subtotal, General Revenues</b>	<b>50,301,052</b>
			<b>Change in Net Position</b>	<b>(1,288,074)</b>
			Net Position - Beginning, as restated	(27,921,763)
			Net Position - Ending	<b>\$ (29,209,837)</b>

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

**SULPHUR SPRINGS UNION SCHOOL DISTRICT**

**GOVERNMENTAL FUNDS**

**BALANCE SHEET**

**JUNE 30, 2018**

	<b>General Fund</b>	<b>Building Fund</b>	<b>Capital Facilities Fund</b>
<b>ASSETS</b>			
Deposits and investments	\$ 8,804,830	\$ 9,622,769	\$ 3,181,308
Receivables	2,124,296	53,351	17,554
Stores inventories	73,692	-	-
<b>Total Assets</b>	<b>\$ 11,002,818</b>	<b>\$ 9,676,120</b>	<b>\$ 3,198,862</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 2,030,749	\$ 54,123	\$ 47,268
<b>Fund Balances:</b>			
Nonspendable	78,691	-	-
Restricted	187,192	9,621,997	3,151,594
Committed	-	-	-
Assigned	-	-	-
Unassigned	8,706,186	-	-
<b>Total Fund Balances</b>	<b>8,972,069</b>	<b>9,621,997</b>	<b>3,151,594</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 11,002,818</b>	<b>\$ 9,676,120</b>	<b>\$ 3,198,862</b>

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

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<b>Capital Project Fund for Blended Component Units</b>	<b>Non-Major Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ 1,351,734	\$ 3,104,039	\$ 26,064,680
6,244	130,635	2,332,080
-	-	73,692
<u>\$ 1,357,978</u>	<u>\$ 3,234,674</u>	<u>\$ 28,470,452</u>

<u>\$ 57,215</u>	<u>\$ 84,265</u>	<u>\$ 2,273,620</u>
------------------	------------------	---------------------

	-	78,691
1,300,763	2,945,010	17,206,556
-	203,608	203,608
-	1,791	1,791
-	-	8,706,186
<u>1,300,763</u>	<u>3,150,409</u>	<u>26,196,832</u>
<u>\$ 1,357,978</u>	<u>\$ 3,234,674</u>	<u>\$ 28,470,452</u>

**SULPHUR SPRINGS UNION SCHOOL DISTRICT**

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

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**Total Fund Balance - Governmental Funds** \$ 26,196,832

**Amounts Reported for Governmental Activities in the  
Statement of Net Position are Different Because:**

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.

The cost of capital assets is:	\$ 124,077,011	
Accumulated depreciation is:	<u>(37,331,137)</u>	
Net Capital Assets		86,745,874

In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. On the government-wide financial statements, unmatured interest on long-term obligations is recognized when it is incurred. (828,261)

Deferred outflows of resources related to pensions represent a consumption of net position in a future period and are not reported in the District's funds. Deferred outflows of resources related to pensions at year end consist of:

Pension contributions subsequent to measurement date	4,200,847	
Net change in proportionate share of net pension liability	497,565	
Differences between projected and actual earnings on pension plan investments	376,640	
Differences between expected and actual experience in the measurement of the total pension liability	535,528	
Changes of assumptions	<u>8,877,688</u>	
Total Deferred Outflows of Resources related to pensions		14,488,268

Deferred inflows of resources related to pensions represent an acquisition of net position that applies to a future period and are not reported in the District's funds. Deferred inflows of resources related to pensions at year end consist of:

Net change in proportionate share of net pension liability	(6,924,206)	
Differences between projected and actual earnings on pension plan investments	(1,047,615)	
Differences between expected and actual experience in the measurement of the total pension liability	(686,075)	
Changes of assumptions	<u>(128,189)</u>	
Total Deferred Inflows of Resources related to pensions		(8,786,085)

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

# SULPHUR SPRINGS UNION SCHOOL DISTRICT

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

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Net pension liability is not due and payable in the current period, and is not reported as a liability in the funds.		\$ (50,223,237)
Long-term obligations, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.		
Long-term obligations at year-end consist of:		
General obligation bonds	\$ (48,596,063)	
Premium on general obligation bonds	(3,325,919)	
Discount on general obligation bonds	150,167	
Certificates of participation	(25,375,000)	
Compensated absences	(354,708)	
Supplemental early retirement plans	(1,859,284)	
Textbook purchase agreement	(516,961)	
Net other postemployment benefits (OPEB) liability	(16,740,494)	
In addition, the District has issued 'capital appreciation' general obligation bonds. The accretion of interest unmatured on the general obligation bonds to date is:	(184,966)	
Total Long-Term Obligations		(96,803,228)
<b>Total Net Position - Governmental Activities</b>		<u><u>\$ (29,209,837)</u></u>

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

# SULPHUR SPRINGS UNION SCHOOL DISTRICT

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

	General Fund	Building Fund	Capital Facilities Fund
<b>REVENUES</b>			
Local Control Funding Formula	\$ 43,659,435	\$ -	\$ -
Federal sources	2,556,489	-	-
Other State sources	4,905,492	-	-
Other local sources	5,894,270	158,098	1,369,476
<b>Total Revenues</b>	<b>57,015,686</b>	<b>158,098</b>	<b>1,369,476</b>
<b>EXPENDITURES</b>			
Current			
Instruction	35,551,484	-	-
Instruction-related activities:			
Supervision of instruction	1,376,024	-	-
Instructional library, media, and technology	521,741	-	-
School site administration	2,874,709	-	-
Pupil services:			
Home-to-school transportation	1,433,865	-	-
Food services	-	-	-
All other pupil services	2,625,518	-	-
Administration:			
Data processing	632,805	-	-
All other administration	3,446,678	-	112,941
Plant services	6,444,993	-	28,584
Ancillary services	196,060	-	-
Other outgo	492,237	-	-
Facility acquisition and construction	128	871,479	14,884
Debt service			
Principal	516,961	-	-
Interest and other	98,740	-	-
<b>Total Expenditures</b>	<b>56,211,943</b>	<b>871,479</b>	<b>156,409</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>803,743</b>	<b>(713,381)</b>	<b>1,213,067</b>
<b>Other Financing Sources (Uses)</b>			
Transfers in	-	-	-
Other sources - proceeds from capital lease	-	-	-
Transfers out	(507,250)	-	-
<b>Net Financing Sources (Uses)</b>	<b>(507,250)</b>	<b>-</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>296,493</b>	<b>(713,381)</b>	<b>1,213,067</b>
<b>Fund Balances - Beginning</b>	<b>8,675,576</b>	<b>10,335,378</b>	<b>1,938,527</b>
<b>Fund Balances - Ending</b>	<b>\$ 8,972,069</b>	<b>\$ 9,621,997</b>	<b>\$ 3,151,594</b>

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

<b>Capital Project Fund for Blended Component Units</b>	<b>Non-Major Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ -	\$ 100,000	\$ 43,759,435
-	-	2,556,489
-	681,646	5,587,138
332,323	1,944,127	9,698,294
<u>332,323</u>	<u>2,725,773</u>	<u>61,601,356</u>
-	467,728	36,019,212
-	-	-
-	-	1,376,024
-	-	521,741
-	141,414	3,016,123
-	-	-
-	-	1,433,865
-	4,898	4,898
-	-	2,625,518
-	-	-
-	-	632,805
-	33,550	3,593,169
-	27,522	6,501,099
-	-	196,060
-	-	492,237
315,881	44,570	1,246,942
-	-	-
-	35,000	551,961
-	3,638,330	3,737,070
<u>315,881</u>	<u>4,393,012</u>	<u>61,948,724</u>
<u>16,442</u>	<u>(1,667,239)</u>	<u>(347,368)</u>
-	507,250	507,250
-	961,254	961,254
-	-	(507,250)
<u>-</u>	<u>1,468,504</u>	<u>961,254</u>
16,442	(198,735)	613,886
1,284,321	3,349,144	25,582,946
<u>\$ 1,300,763</u>	<u>\$ 3,150,409</u>	<u>\$ 26,196,832</u>

**SULPHUR SPRINGS UNION SCHOOL DISTRICT**

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

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**Total Net Change in Fund Balances - Governmental Funds** \$ 613,886

**Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures; however, for governmental activities, those costs are shown in the Statement of Net Position and allocated over their estimated useful lives as annual depreciation expenses in the Statement of Activities.

This is the amount by which depreciation exceeds capital outlays in the period:

Depreciation expense	\$ (2,346,983)	
Capital outlays	<u>1,509,318</u>	
Net expense adjustment		(837,665)

In the Statement of Activities, certain operating expenses, such as compensated absences (vacations) and special termination benefits (early retirement incentive), are measured by the amounts earned during the year. In the governmental funds, however, expenditures on these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, early retirement incentives paid were \$36,000; the CalSTRS early retirement incentive earned was more than amounts paid by \$388,347; and vacation earned was more than the amounts used by \$31,902. (384,249)

In the governmental funds, pension costs are based on employer contributions made to pension plans during the year. However, in the Statement of Activities, pension expense is the net effect of all changes in the deferred outflows, deferred inflows and net pension liability during the year. (762,426)

In the governmental funds, OPEB costs are based on employer contributions made to OPEB plans during the year. However, in the Statement of Activities, OPEB expense is the net effect of all changes in the deferred outflows, deferred inflows and net OPEB liability during the year. (443,514)

Repayment of debt obligations is an expenditure in the governmental funds, but reduces long-term obligations in the Statement of Net Position and does not affect the Statement of Activities:

General obligation bonds	35,000	
Textbook purchase agreement	<u>516,961</u>	
Combined adjustment		551,961

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

**SULPHUR SPRINGS UNION SCHOOL DISTRICT**

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

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Under the modified basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the Statement of Activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. This adjustment combines the net changes of the following balances:

Amortization of debt premium	\$ 123,523	
Amortization of debt discount	<u>(6,436)</u>	
Combined adjustment		\$ 117,087

Interest on long-term obligations in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the Statement of Activities is the result of two factors. First, accrued interest on the general obligation bonds increased by \$90,572, and second, \$52,582 of accumulated interest was accreted on the District's "capital appreciation" general obligation bonds.

	<u>(143,154)</u>
<b>Change in Net Position of Governmental Activities</b>	<u><u>\$ (1,288,074)</u></u>

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

# SULPHUR SPRINGS UNION SCHOOL DISTRICT

## FIDUCIARY FUNDS STATEMENT OF NET POSITION JUNE 30, 2018

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	<u>Agency Funds</u>
<b>ASSETS</b>	
Deposits and investments	\$ 7,259,169
Receivables	6,473
<b>Total Assets</b>	<u>\$ 7,265,642</u>
 <b>LIABILITIES</b>	
Due to bondholders	\$ 7,067,438
Due to employees	198,204
<b>Total Liabilities</b>	<u>\$ 7,265,642</u>

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

# SULPHUR SPRINGS UNION SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Financial Reporting Entity**

The Sulphur Springs Union School District (the District) was established in 1872 under the laws of the State of California. The District operates under a locally elected five member Board form of government and provides educational services to grades preschool to sixth as mandated by the State and/or Federal agencies. The District operates nine elementary schools.

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments, boards, and agencies that are not legally separate from the District. For Sulphur Springs Union School District, this includes general operations and capital outlay activities of the District.

#### **Component Units**

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

The Sulphur Springs Union School Community Facilities Districts 2002-1 and 2006-1 (the CFDs) and the Sulphur Springs Union School District Public Facilities Corporation (the Corporation) have financial and operational relationships with the Sulphur Springs Union School District which meet the reporting entity definition criteria of the GASB Statement No. 14, *The Financial Reporting Entity*, for inclusion of the CFDs and the Corporation as component units of the District. The financial statements present the CFDs' financial activity within the Capital Project Fund for Blended Component Units and the Agency Fund. Debt instruments issued by the CFDs do not represent liabilities of the District or components units and are not included in the government-wide financial statements. The Corporation's financial activity is presented in the financial statements as the COP Debt Service Fund. Certificates of participation issued by the Corporation are included as long-term liabilities in the government-wide financial statements.

# SULPHUR SPRINGS UNION SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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### Basis of Presentation - Fund Accounting

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

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

### Major Governmental Funds

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

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

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

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

### Non-Major Governmental Funds

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

**Child Development Fund** The Child Development Fund is used to account separately for federal, State, and local revenues to operate child development programs and is to be used only for expenditures for the operation of child development programs.

**Deferred Maintenance Fund** The Deferred Maintenance Fund is used to account separately for revenues that are restricted or committed for deferred maintenance purposes (*Education Code* Section 17582).

# SULPHUR SPRINGS UNION SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

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

**COP Debt Service Fund** The COP Debt Service Fund is used to account for the accumulation of resources for the repayment of certificates of deposit issued by the Sulphur Springs Union School District Public Facilities Corporation.

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

Trust funds are used to account for the assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore, not available to support the District's own programs. The District has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Such funds have no equity accounts since all assets are due to individuals or entities at some future time. The District's agency funds account for associated student body activities and funds held for the Community Facilities District 2002-1 and Community Facilities District 2006-1 debt service.

### **Basis of Accounting - Measurement Focus**

**Government-Wide Financial Statements** The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This differs from the manner in which governmental fund financial statements are prepared.

The government-wide *Statement of Activities* presents a comparison between expenses, both direct and indirect, and program revenues for each governmental function, and excludes fiduciary activity. Direct expenses are those that are specifically associated with a service, program, or department and are therefore, clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the *Statement of Activities*, except for depreciation. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program is self-financing or draws from the general revenues of the District. Eliminations have been made to minimize the double counting of internal activities.

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

# SULPHUR SPRINGS UNION SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

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

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

**Revenues – Exchange and Non-Exchange Transactions** Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter, to be used to pay liabilities of the current fiscal year. Generally, available is defined as collectible within 90 days. However, to achieve comparability of reporting among California districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to State-aid apportionments, the California Department of Education has defined available for districts as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

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

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

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

# SULPHUR SPRINGS UNION SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

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

### **Investments**

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

### **Stores Inventories**

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

### **Capital Assets and Depreciation**

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. Capital assets are long-lived assets of the District. The District maintains a capitalization threshold of \$5,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, but are expensed as incurred.

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

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

# SULPHUR SPRINGS UNION SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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### **Compensated Absences**

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

Sick leave is accumulated without limit for each employee at the rate of one day for each month worked. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulated sick leave. Employees are never paid for any sick leave balance at termination of employment or any other time. Therefore, the value of accumulated sick leave is not recognized as a liability in the District's financial statements. However, credit for unused sick leave is applicable to all classified school members who retire after January 1, 1999. At retirement, each member will receive .004 year of service credit for each day of unused sick leave. Credit for unused sick leave is applicable to all certificated employees and is determined by dividing the number of unused sick days by the number of base service days required to complete the last school year, if employed full-time.

### **Accrued Liabilities and Long-Term Obligations**

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

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

### **Debt Issuance Costs, Premiums, and Discounts**

In the government-wide financial statements long-term obligations are reported as liabilities in the applicable governmental activities Statement of Net Position. Debt premiums and discounts, as well as issuance costs, related to prepaid insurance costs are amortized over the life of the bonds using the straight-line method.

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

# SULPHUR SPRINGS UNION SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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### Deferred Outflows/Inflows of Resources

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

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

### Pensions

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

### Postemployment Benefits Other Than Pensions (OPEB)

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

### Fund Balances - Governmental Funds

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

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

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

**Committed** - amounts that can be used only for specific purposes determined by a formal action of the governing board. The governing board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through resolutions or other action as approved by the governing board.

# SULPHUR SPRINGS UNION SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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**Assigned** - amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the District's adopted policy, only the governing board or chief business officer/assistant superintendent of business services may assign amounts for specific purposes.

**Unassigned** - all other spendable amounts.

### **Spending Order Policy**

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the governing board has provided otherwise in its commitment or assignment actions.

### **Minimum Fund Balance Policy**

The governing board adopted a minimum fund balance policy for the General Fund in order to protect the District against revenue shortfalls or unpredicted on-time expenditures. The policy requires a Reserve for Economic Uncertainties consisting of unassigned amounts equal to no less than three percent of General Fund expenditures and other financing uses.

### **Net Position**

Net position represents the difference between assets and liabilities. Net position net of investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. The government-wide financial statements report \$5,455,535 of restricted net position.

### **Interfund Activity**

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

### **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.

# SULPHUR SPRINGS UNION SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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### Property Tax

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

### Change in Accounting Principles

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

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

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

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

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

# SULPHUR SPRINGS UNION SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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- Classifying employer-paid member contributions for OPEB;
- Simplifying certain aspects of the alternative measurement method for OPEB;
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

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

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

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

### **New Accounting Pronouncements**

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

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

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

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

# SULPHUR SPRINGS UNION SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

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This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

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

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

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

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

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

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

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

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

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

# SULPHUR SPRINGS UNION SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

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

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

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

### NOTE 2 - DEPOSITS AND INVESTMENTS

#### Summary of Deposits and Investments

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

Governmental activities	\$ 26,064,680
Fiduciary funds	7,259,169
Total Deposits and Investments	<u>\$ 33,323,849</u>

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

Cash in revolving	\$ 5,000
Investments	33,318,849
Total Deposits and Investments	<u>\$ 33,323,849</u>

#### Policies and Practices

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



# SULPHUR SPRINGS UNION SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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### Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District manages its exposure to interest rate risk by investing in the Los Angeles County Treasury Investment Pool and by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

### 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 District's investment in the Los Angeles County Treasury Investment Pool and U.S. Bank Money Market Funds are not required to be rated. The First American Government Obligations are rated Aaa-mf by Moody's Investor Service.

Investment Type	Reported Amount	Weighted Average Maturity in Days
Los Angeles County Treasury Investment Pool	\$ 25,983,024	609
First American Government Obligations	5,877,180	19
U.S. Bank Money Market Fund	1,458,645	N/A
Total	\$ 33,318,849	

### Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2018, the District's bank balance of \$41,504 was not exposed to custodial credit risk because it was insured.

# SULPHUR SPRINGS UNION SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

### NOTE 3 - FAIR VALUE MEASUREMENTS

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

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

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

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

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

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

Investment Type	Reported Amount	Fair Value Measurements	
		Using Level 2 Inputs	Uncategorized
Los Angeles County Treasury Investment Pool	\$ 25,983,024	\$ -	\$ 25,983,024
First American Government Obligations	5,877,180	5,877,180	-
U.S. Bank Money Market Fund	1,458,645	-	1,458,645
Total	<u>\$ 33,318,849</u>	<u>\$ 5,877,180</u>	<u>\$ 27,441,669</u>

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

**SULPHUR SPRINGS UNION SCHOOL DISTRICT**

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

**NOTE 4 - RECEIVABLES**

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

	General Fund	Building Fund	Capital Facilities Fund	Capital Project Fund For Blended Component Units
Federal Government				
Categorical aid	\$ 537,087	\$ -	\$ -	\$ -
State Government				
LCFF apportionment	426,948	-	-	-
Categorical aid	814,353	-	-	-
Lottery	228,244	-	-	-
Local Government				
Interest	44,029	53,351	17,554	6,244
Other Local Sources	73,635	-	-	-
Total	<u>\$ 2,124,296</u>	<u>\$ 53,351</u>	<u>\$ 17,554</u>	<u>\$ 6,244</u>

	Non-Major Governmental Funds	Total Governmental Activities	Agency Funds
Federal Government			
Categorical aid	\$ -	\$ 537,087	\$ -
State Government			
LCFF apportionment	-	426,948	-
Categorical aid	129,031	943,384	-
Lottery	-	228,244	-
Local Government			
Interest	1,604	122,782	6,473
Other Local Sources	-	73,635	-
Total	<u>\$ 130,635</u>	<u>\$ 2,332,080</u>	<u>\$ 6,473</u>

**SULPHUR SPRINGS UNION SCHOOL DISTRICT**

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

**NOTE 5 - CAPITAL ASSETS**

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

	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018
<b>Governmental Activities</b>				
Capital Assets Not Being Depreciated:				
Land	\$ 11,972,356	\$ -	\$ -	\$ 11,972,356
Construction in Progress	147,180	155,817	147,180	155,817
Total Capital Assets Not Being Depreciated	<u>12,119,536</u>	<u>155,817</u>	<u>147,180</u>	<u>12,128,173</u>
Capital Assets Being Depreciated:				
Land Improvements	2,240,424	-	-	2,240,424
Buildings and Improvements	105,118,606	1,442,034	-	106,560,640
Furniture and Equipment	3,089,127	58,647	-	3,147,774
Total Capital Assets Being Depreciated	<u>110,448,157</u>	<u>1,500,681</u>	<u>-</u>	<u>111,948,838</u>
Total Capital Assets	<u>122,567,693</u>	<u>1,656,498</u>	<u>147,180</u>	<u>124,077,011</u>
Less Accumulated Depreciation:				
Land Improvements	1,935,711	37,434	-	1,973,145
Buildings and Improvements	30,285,898	2,233,069	-	32,518,967
Furniture and Equipment	2,762,545	76,480	-	2,839,025
Total Accumulated Depreciation Governmental Activities	<u>34,984,154</u>	<u>2,346,983</u>	<u>-</u>	<u>37,331,137</u>
Capital Assets, Net	<u>\$ 87,583,539</u>	<u>\$ (690,485)</u>	<u>\$ 147,180</u>	<u>\$ 86,745,874</u>

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

<b>Governmental Activities</b>	
Instruction	\$ 1,713,298
Instructional library, media, and technology	23,470
All other pupil services	164,289
Data processing	187,759
All other administration	23,470
Plant services	234,697
Total Depreciation Expenses Governmental Activities	<u>\$ 2,346,983</u>

**SULPHUR SPRINGS UNION SCHOOL DISTRICT**

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

**NOTE 6 - INTERFUND TRANSACTIONS**

**Operating Transfers**

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

The General Fund transferred to the COP Debt Service Non-Major Governmental Fund for future debt service payments.	\$ 500,000
The General Fund transferred to the Child Development Non-Major Governmental Fund for program contributions.	7,250
Total	<u><u>\$ 507,250</u></u>

**NOTE 7 - ACCOUNTS PAYABLE**

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

	General Fund	Building Fund	Capital Facilities Fund	Capital Project Fund for Blended Component Units	Non-Major Governmental Funds	Total
Salaries and benefits	\$ 929,386	\$ -	\$ -	\$ -	\$ 40,673	\$ 970,059
STRS retirement incentive	311,250	-	-	-	-	311,250
Supplies	166,693	2,525	-	-	24,843	194,061
Services	495,169	21,171	47,268	-	18,749	582,357
Construction	20,771	30,427	-	57,215	-	108,413
Due to local education agencies	107,480	-	-	-	-	107,480
Total	<u><u>\$ 2,030,749</u></u>	<u><u>\$ 54,123</u></u>	<u><u>\$ 47,268</u></u>	<u><u>\$ 57,215</u></u>	<u><u>\$ 84,265</u></u>	<u><u>\$ 2,273,620</u></u>

**NOTE 8 – TAX AND REVENUE ANTICIPATION NOTES**

On August 17, 2017, the District issued \$3,420,000 of Tax and Revenue Anticipation Notes bearing interest at 3.00 percent. The notes were issued to supplement cash flow. Interest and principal were due and payable on June 1, 2018. By May 31, 2018, the District had placed 100 percent of principal and interest in a repayment fund for the sole purpose of satisfying the notes.

# SULPHUR SPRINGS UNION SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

### NOTE 9 - LONG-TERM OBLIGATIONS

#### Summary

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

	(as Restated)			Balance June 30, 2018	Due in One Year
	Balance July 1, 2017	Additions	Deductions		
General obligation bonds	\$ 48,763,447	\$ 52,582	\$ 35,000	\$ 48,781,029	\$ 245,000
Premium on bonds	3,449,442	-	123,523	3,325,919	-
Discount on bonds	(156,603)	-	(6,436)	(150,167)	-
Certificates of participation	25,375,000	-	-	25,375,000	-
Compensated absences	322,806	31,902	-	354,708	-
CalSTRS early retirement incentive	1,434,937	628,949	240,602	1,823,284	319,221
Supplemental early retirement plan (SERP)	72,000	-	36,000	36,000	36,000
Textbook purchase agreement	1,033,922	-	516,961	516,961	516,961
Net other postemployment benefits (OPEB) liability	16,296,980	443,514	-	16,740,494	-
Total	<u>\$ 96,591,931</u>	<u>\$ 1,156,947</u>	<u>\$ 945,650</u>	<u>\$ 96,803,228</u>	<u>\$ 1,117,182</u>

Payments on the General Obligation Bonds will be made by the Bond Interest and Redemption Fund with local revenues. Payments on the Certificates of Participation are made by the COP Debt Service Fund. The General Fund will make payments for the textbook purchase agreement. Accrued vacation will be paid by the fund for which the employee worked. Net other postemployment benefits (OPEB) liability and early retirement incentives will be paid by the General Fund.

#### Bonded Debt

The outstanding general obligation bonded debt is as follows:

Bond	Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds				Bonds Outstanding June 30, 2018
					Outstanding July 1, 2017	Issued	Accreted	Redeemed	
2012 Series A	4/30/14	2030	4.0-8.0%	\$ 2,498,086	\$ 2,638,447	\$ -	\$ 52,582	\$ 35,000	\$ 2,656,029
2012 Series 2015B	10/14/15	2041	3.95-5.0%	10,740,000	10,740,000	-	-	-	10,740,000
2012 Series 2016C	5/25/16	2049	3.0-4.0%	29,690,000	29,690,000	-	-	-	29,690,000
2012 Series 2017D	6/27/17	2046	3.125-5.25%	5,695,000	5,695,000	-	-	-	5,695,000
					<u>\$ 48,763,447</u>	<u>\$ -</u>	<u>\$ 52,582</u>	<u>\$ 35,000</u>	<u>\$ 48,781,029</u>

# SULPHUR SPRINGS UNION SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

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### **2012 General Obligation Bond, Series A**

In April 2014, the District issued the \$2,498,086, Election of 2012, General Obligation Bonds, Series A. The 2012 Series A bonds were issued as both current interest bonds and capital appreciation bonds, with the value of the capital appreciation bonds accreting to \$1,240,000, and an aggregate principal debt service balance of \$3,205,000. The bonds were issued at an aggregate price of \$2,712,676, representing the principal amount of \$2,498,086, plus an original issue premium of \$349,070, and less costs of issuance of \$134,480. The bonds have a final maturity of September 1, 2030, with interest rate yields of 4.00 to 8.00 percent. Proceeds from the sale of the bonds were used to finance the acquisition, construction, modernization, and equipping of certain District schools, sites, and facilities and to pay the cost of issuing the bonds. At June 30, 2018, the principal balance outstanding of the Election of 2012 General Obligation Bonds, Series A, was \$2,656,029. Unamortized premium received on the issuance of bonds amounted to \$259,984.

### **2012 General Obligations Bond, Series 2015B**

In October 2015, the District issued the Taxable General Obligation Bonds, Election of 2012, Series 2015B. The Election of 2012, Series 2015B, bonds were issued as current interest bonds, with a principal debt service balance of \$10,740,000. The bonds were issued at an aggregate price of \$10,197,834, representing the principal amount of \$10,740,000, less an original issue discount of \$167,329, and costs of issuance of \$374,837. The bonds have a final maturity of September 1, 2041, with interest rate yields of 3.95 to 5.10 percent. Proceeds from the sale of the bonds were used to finance the acquisition, construction, modernization, and equipping of certain District schools, sites, and facilities and to pay the cost of issuing the bonds. At June 30, 2018, the principal balance outstanding of the Taxable General Obligation Bonds, Election of 2012, Series 2015B, was \$10,740,000. Unamortized discount on the issuance of bonds amounted to \$150,167.

### **2012 General Obligations Bond, Series 2016C**

In May 2016, the District issued the General Obligation Bonds, Election of 2012, Series 2016C. The Election of 2012, Series 2016C, bonds were issued as current interest bonds, with a principal debt service balance of \$29,690,000. The bonds were issued at an aggregate price of \$31,550,624, representing the principal amount of \$29,690,000, plus an original issue premium of \$2,399,669, and less costs of issuance of \$539,045. The bonds have a final maturity of September 1, 2049, with interest rate yields of 3.00 to 4.00 percent. Proceeds from the sale of the bonds were used to finance the acquisition, construction, modernization, and equipping of certain District schools, sites, and facilities and to pay the cost of issuing the bonds. At June 30, 2018, the principal balance outstanding of the Taxable General Obligation Bonds, Election of 2012, Series 2016C, was \$29,690,000. Unamortized premium received on the issuance of bonds amounted to \$2,254,235.

# SULPHUR SPRINGS UNION SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

### 2012 General Obligations Bond, Series 2017D

In June 2017, the District issued the General Obligation Bonds, Election of 2012, Series 2017D. The Election of 2012, Series 2017D, bonds were issued as current interest bonds, with a principal debt service balance of \$5,695,000. The bonds were issued at an aggregate price of \$6,264,511, representing the principal amount of \$5,695,000, plus an original issue premium of \$840,689, and less costs of issuance of \$271,178. The bonds have a final maturity of September 1, 2046, with interest rate yields of 3.125 to 5.250 percent. Proceeds from the sale of the bonds were used to finance the acquisition, construction, modernization, and equipping of certain District schools, sites, and facilities and to pay the cost of issuing the bonds. At June 30, 2018, the principal balance outstanding of the Taxable General Obligation Bonds, Election of 2012, Series 2017D, was \$5,695,000. Unamortized premium received on the issuance of bonds amounted to \$811,700.

The Bonds mature through 2050 as follows:

Year Ending, June 30,	Principal Including Accreted Interest To Date	Accreted Interest	Current Interest	Total
2019	\$ 243,963	\$ 1,037	\$ 2,075,440	\$ 2,320,440
2020	375,162	4,838	2,067,490	2,447,490
2021	50,931	9,069	2,062,441	2,122,441
2022	80,186	14,814	2,061,750	2,156,750
2023	104,969	20,031	2,060,071	2,185,071
2024-2028	1,036,089	218,911	10,232,636	11,487,636
2029-2033	2,339,729	247,271	9,947,744	12,534,744
2034-2038	5,900,000	-	9,047,659	14,947,659
2039-2043	11,515,000	-	7,019,288	18,534,288
2044-2048	18,500,000	-	3,724,969	22,224,969
2049-2050	8,635,000	-	352,700	8,987,700
Total	<u>\$ 48,781,029</u>	<u>\$ 515,971</u>	<u>\$ 50,652,188</u>	<u>\$ 99,949,188</u>

### Certificates of Participation

In December 2010, the District issued 2010 Refunding Certificates of Participation in the amount of \$24,427,497 with interest rates ranging from 2.00 to 6.50 percent. The certificates were issued as both current interest and convertible capital appreciation certificates accreting to \$33,255,000. The proceeds were used to refund all of the 2008 Certificates of Participation and a portion of the 2006 Certificates of Participation. In November 2015, the 2010 Refunding Certificates of Participation had a partial defeasance. The certificates are due December 1, 2037. As of June 30, 2018, the principal balance outstanding was \$25,375,000.

**SULPHUR SPRINGS UNION SCHOOL DISTRICT**

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

The certificates mature through 2038 as follows:

Year Ending June 30,	Principal	Interest	Total
2019	\$ -	\$ 1,649,375	\$ 1,649,375
2020	-	1,649,375	1,649,375
2021	-	1,649,375	1,649,375
2022	-	1,649,375	1,649,375
2023	-	1,649,375	1,649,375
2024-2028	4,660,000	7,727,200	12,387,200
2029-2033	8,740,000	5,383,625	14,123,625
2034-2038	11,975,000	2,043,438	14,018,438
Total	<u>\$ 25,375,000</u>	<u>\$ 23,401,138</u>	<u>\$ 48,776,138</u>

**Accumulated Unpaid Employee Vacation**

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2018, amounted to \$354,708.

**CalSTRS Early Retirement Incentive**

The District has offered a CalSTRS early retirement incentive program. The payments are scheduled as follows:

Year Ending June 30,	Total Payments
2019	\$ 319,221
2020	293,106
2021	279,965
2022	269,970
2023	235,555
2024-2025	425,467
Total	<u>\$ 1,823,284</u>

**Other Supplemental Early Retirement Plans (SERP)**

During 2015, the District offered a supplemental early retirement plan to the Superintendent whereby the District has purchased an annuity from Mutual of Omaha to supplement the retirement benefits entitled to through the California Public Employees' Retirement System. The annuity is to be paid over a five-year period. As of June 30, 2018, the outstanding obligation was \$36,000. Future payments are scheduled as follows:

Year Ending June 30,	Total Payments
2019	<u>\$ 36,000</u>

**SULPHUR SPRINGS UNION SCHOOL DISTRICT**

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

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**Textbook Purchase Agreement**

The District has entered into long-term purchase agreements for textbooks. The District's liability on the purchase agreement is summarized below:

The purchase agreement has minimum payments as follows:

Year Ending June 30, <u>2019</u>	<u>Payments</u> <u>\$ 516,961</u>
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**Net Other Postemployment Benefit (OPEB) Liability**

For the fiscal year ended June 30, 2018, the District reported total OPEB liability and OPEB expense for the District Plan:

<u>OPEB Plan</u>	<u>Total OPEB Liability</u>	<u>OPEB Expense</u>
District Plan	<u>\$ 16,740,494</u>	<u>\$ 1,283,705</u>

The details of the plan are as follows:

**District Plan**

**Plan Administration**

The District's governing board administers the Postemployment Benefits Plan (the Plan). The Plan is a single-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB) for eligible retirees and their spouses. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

*Plan Membership*

At June 30, 2017, the Plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits payments	43
Active employees	<u>406</u>
	<u>449</u>

# SULPHUR SPRINGS UNION SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

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### *Benefits Provided*

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

The benefit payment requirements of the Plan members and the District are established and may be amended by the District, the Sulphur Springs District Teachers Association (SSDTA), the local California Service Employees Association (CSEA), and unrepresented groups. The benefit payment is based on projected pay-as-you-go financing requirements as determined annually through the agreements with the District, SSDTA, CSEA, and the unrepresented groups. For fiscal year 2017-2018, the District paid \$840,191 in benefits.

### **Total OPEB Liability of the District**

The District's total OPEB liability of \$16,740,494, was measured as of June 30, 2018, and was determined by an actuarial valuation as of July 1, 2017.

### *Actuarial Assumptions*

The total OPEB liability in the July 1, 2017 actuarial valuation was determined using the following assumptions, applied to all periods included in the measurement, unless otherwise specified:

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

The discount rate was based on the Municipal Bond 20-Year High Grade Rate Index.

Pre-retirement mortality rates were based on the RP - Employee Mortality Table for Males or Females, as appropriate, without projection. Post-retirement mortality rates were based on the RP - 2014 Health Annuitant Mortality Table for Males or Females, as appropriate, without projection. Mortality rates vary by age and sex. (Unisex mortality rates are not often used as individual OPEB benefits do not depend on the mortality table used.) If employees die prior to retirement, past contributions are available to fund benefits for employees who live to retirement. After retirement, death results in benefit termination or reduction. Although higher mortality rates reduce service costs, the mortality assumption is not likely to vary from employer to employer.

**SULPHUR SPRINGS UNION SCHOOL DISTRICT**

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

The actual assumptions used in the July 1, 2017 valuation were based on the results of an actual experience study for the period July 1, 2015 to June 30, 2017.

	Total OPEB Liability
Balance at June 30, 2017	\$ 16,296,980
Service cost	708,827
Interest	574,878
Contributions-employer	(840,191)
Net change in total OPEB liability	443,514
Balance at June 30, 2018	<u>\$ 16,740,494</u>

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

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

Discount Rate	Total OPEB Liability
1% decrease (2.62%)	\$ 18,111,548
Current discount rate (3.62%)	16,740,494
1% increase (4.62%)	15,492,532

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

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

Healthcare Cost Trend Rates	Total OPEB Liability
1% decrease (4.00%)	\$ 15,606,326
Current healthcare cost trend rate (5.00%)	16,740,494
1% increase (6.00%)	18,682,770

**OPEB Expense**

For the year ended June 30, 2018, the District recognized OPEB expense of \$1,283,705.

# SULPHUR SPRINGS UNION SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

### NOTE 10 – COMMUNITY FACILITIES DISTRICT BONDS (NON-OBLIGATORY DEBT)

These bonds are authorized to the Mello-Roos Community Facilities Act of 1982, as amended, and are payable from special taxes levied on property within the Community Facilities District according to a methodology approved by the voters within the Community Facilities District. Neither the faith and credit nor taxing power of the Sulphur Springs Union School District is pledged to the payment of the bonds. Reserves have been established from the bond proceeds to meet delinquencies should they occur. If delinquencies occur beyond the amounts held in those reserves, the Sulphur Springs Union School District has no duty to pay the delinquency out of any available funds of the District. The Sulphur Springs Union School District acts solely as an agent for those paying taxes levied and the bondholders. The Sulphur Springs Union School Community Facilities District 2002-1 Series 2012A, Series 2013A, and Series 2014A have remaining balances as of June 30, 2018, of \$24,880,000. The Sulphur Springs Union School District Community Facilities District 2006-1 issued Series 2018 special tax bonds in the current year. The Series 2018 special tax bonds have a remaining balance as of June 30, 2018 of \$19,300,000.

### NOTE 11 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Building Fund	Capital Facilities Fund	Capital Project Fund for Blended Component Units	Non-Major Governmental Funds	Total Governmental Funds
<b>Nonspendable</b>						
Revolving cash	\$ 5,000	\$ -	\$ -	\$ -	\$ -	\$ 5,000
Stores inventories	73,691	-	-	-	-	73,691
Total	<u>78,691</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>78,691</u>
<b>Nonspendable</b>	<u>78,691</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>78,691</u>
<b>Restricted</b>						
Legally restricted	187,192	-	-	-	43,636	230,828
Capital projects	-	9,621,997	3,151,594	1,300,763	-	14,074,354
Debt services	-	-	-	-	2,901,374	2,901,374
Total Restricted	<u>187,192</u>	<u>9,621,997</u>	<u>3,151,594</u>	<u>1,300,763</u>	<u>2,945,010</u>	<u>17,206,556</u>
<b>Committed</b>						
Deferred maintenance program	-	-	-	-	203,608	203,608
<b>Assigned</b>						
Other	-	-	-	-	1,791	1,791
<b>Unassigned</b>						
Reserve for economic uncertainties	1,701,576	-	-	-	-	1,701,576
Remaining unassigned	7,004,610	-	-	-	-	7,004,610
Total Unassigned	<u>8,706,186</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,706,186</u>
<b>Total</b>	<u>\$ 8,972,069</u>	<u>\$ 9,621,997</u>	<u>\$ 3,151,594</u>	<u>\$ 1,300,763</u>	<u>\$ 3,150,409</u>	<u>\$ 26,196,832</u>

# SULPHUR SPRINGS UNION SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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### NOTE 12 - RISK MANAGEMENT

#### Property and Liability

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

#### Workers' Compensation

For fiscal year 2018, the District participated in Protected Insurance Program for Schools (PIPS) joint powers authority for workers' compensation. The intent of PIPS is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in PIPS. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all districts in PIPS. Each participant pays its workers' compensation premium based on its individual rate.

#### Employee Medical Benefits

The District has contracted with the California Public Employees' Retirement System to provide employee health benefits.

### NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS

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

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

<u>Pension Plan</u>	<u>Collective Net Pension Liability</u>	<u>Collective Deferred Outflows of Resources</u>	<u>Collective Deferred Inflows of Resources</u>	<u>Collective Pension Expense</u>
CalSTRS	\$ 39,335,551	\$ 10,582,631	\$ 7,777,680	\$ 2,801,787
CalPERS	10,887,686	3,905,637	1,008,405	2,161,486
Total	<u>\$ 50,223,237</u>	<u>\$ 14,488,268</u>	<u>\$ 8,786,085</u>	<u>\$ 4,963,273</u>

# SULPHUR SPRINGS UNION SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

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The details of each plan are as follows:

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

#### **Plan Description**

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

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

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

#### **Benefits Provided**

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

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

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

# SULPHUR SPRINGS UNION SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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

	STRP Defined Benefit Program	
	On or before	On or after
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 Years of Service	5 Years of Service
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	10.25%	9.205%
Required employer contribution rate	14.43%	14.43%
Required State contribution rate	9.328%	9.328%

### Contributions

Required member, District, and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2018, are presented above and the District's total contributions were \$3,149,794.

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

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

Total Net Pension Liability, Including State Share:

District's proportionate share of net pension liability	\$ 39,335,551
State's proportionate share of the net pension liability associated with the District	23,270,579
Total	\$ 62,606,130

The net pension liability was measured as of June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. The District's proportionate share for the measurement period June 30, 2017 and June 30, 2016, respectively, was 0.0425 percent and 0.0454 percent, resulting in a net decrease in the proportionate share of 0.0029 percent.

# SULPHUR SPRINGS UNION SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

For the year ended June 30, 2018, the District recognized pension expense of \$2,801,787. In addition, the District recognized pension expense and revenue of \$278,166, for support provided by the State. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 3,149,794	\$ -
Net change in proportionate share of net pension liability	-	6,043,990
Differences between projected and actual earnings on pension plan investments	-	1,047,615
Differences between expected and actual experience in the measurement of the total pension liability	145,467	686,075
Changes of assumptions	7,287,370	
Total	<u>\$ 10,582,631</u>	<u>\$ 7,777,680</u>

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

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ (870,921)
2020	659,030
2021	95,028
2022	(930,752)
Total	<u>\$ (1,047,615)</u>

**SULPHUR SPRINGS UNION SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ (100,094)
2020	(100,094)
2021	(100,094)
2022	(100,094)
2023	172,043
Thereafter	931,105
Total	<u>\$ 702,772</u>

**Actuarial Methods and Assumptions**

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

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

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

**SULPHUR SPRINGS UNION SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

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

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	47%	6.30%
Fixed income	12%	0.30%
Real estate	13%	5.20%
Private equity	13%	9.30%
Absolute Return/Risk Mitigating Strategies	9%	2.90%
Inflation sensitive	4%	3.80%
Cash/liquidity	2%	-1.00%

**Discount Rate**

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

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

Discount Rate	Net Pension Liability
1% decrease (6.10%)	\$ 57,757,076
Current discount rate (7.10%)	39,335,551
1% increase (8.10%)	24,385,234

# SULPHUR SPRINGS UNION SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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### California Public Employees Retirement System (CalPERS)

#### Plan Description

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

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

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

#### Benefits Provided

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

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

	School Employer Pool (CalPERS)	
	On or before	On or after
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 Years of Service	5 Years of Service
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.00%	6.50%
Required employer contribution rate	15.531%	15.531%

**SULPHUR SPRINGS UNION SCHOOL DISTRICT**

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

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**Contributions**

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2018, are presented above and the total District contributions were \$1,051,053.

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

As of June 30, 2018, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$10,887,686. The net pension liability was measured as of June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2017 and June 30, 2016, respectively, was 0.0456 percent and 0.0496 percent, resulting in a net decrease in the proportionate share of 0.0040 percent.

For the year ended June 30, 2018, the District recognized pension expense of \$2,161,486. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 1,051,053	\$ -
Net change in proportionate share of net pension liability	497,565	880,216
Differences between projected and actual earnings on pension plan investments	376,640	-
Differences between expected and actual experience in the measurement of the total pension liability	390,061	-
Changes of assumptions	1,590,318	128,189
Total	<u>\$ 3,905,637</u>	<u>\$ 1,008,405</u>

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

# SULPHUR SPRINGS UNION SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ (10,206)
2020	434,560
2021	158,533
2022	(206,247)
Total	<u>\$ 376,640</u>

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ 770,765
2020	298,420
2021	400,354
Total	<u>\$ 1,469,539</u>

### Actuarial Methods and Assumptions

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

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

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

**SULPHUR SPRINGS UNION SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

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

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

**Discount Rate**

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

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

<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% decrease (6.15%)	\$ 16,019,276
Current discount rate (7.15%)	10,887,686
1% increase (8.15%)	6,630,603

# SULPHUR SPRINGS UNION SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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### On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount \$2,064,241 (9.328 percent of annual payroll). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements.

### NOTE 14 - COMMITMENTS AND CONTINGENCIES

#### Grants

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2018.

#### Litigation

The District is not currently a party to any legal proceedings.

#### Operating Leases

The District has entered into an operating lease for photocopiers and a mailing system under operating leases.

Future minimum lease payments under this agreement are as follows:

Year Ending June 30,	Lease Payment
2019	\$ 94,687
2020	2,002
Total	<u>\$ 96,689</u>

Lease payments for the year ended June 30, 2018 amounted to \$94,687.

# SULPHUR SPRINGS UNION SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

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### **NOTE 15 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS, JOINT POWERS AUTHORITIES AND OTHER RELATED PARTY TRANSACTIONS**

The District is a member of the Self-Insurance Risk Management Authority (SIRMA), Protected Insurance Program for Schools (PIPS), and Santa Clarita Valley School Food Services Agency (SCVSFSA) Joint Powers Authorities (JPAs). The District pays an annual premium to the SIRMA for its property and liability coverage. The District pays premiums to PIPS for workers' compensation coverage. Payments for food services received are paid to the SCVSFSA. The relationships between the District and the JPAs are such that they 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 statements. Audited financial statements are generally available from the respective entities.

During the year ended June 30, 2018, the District made payments of \$430,794, \$1,172,791, and \$19,249, to SIRMA, PIPS, and SCVSFSA, respectively, for services received.

### **NOTE 16 - EARLY RETIREMENT INCENTIVE PROGRAM**

The District has adopted an early retirement incentive program, pursuant to *Education Code* Sections 22714 and 44929, 44929.1, whereby the service credit to eligible employees is increased by two years. Eligible employees must have five or more years of service under the State Teachers' Retirement System and retire during a period of not more than 120 days or less than 60 days from the date of the formal action taken by the District.

**SULPHUR SPRINGS UNION SCHOOL DISTRICT**

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

**Retiree Information**

A total of 10 employees have retired in exchange for the additional two years of service credit. The average age is 63 years and average service credit, before the additional two years, is 20 years.

Position Vacated	Employee Age	Service Credit	Retired Employee*		Replacement Employee (If Applicable)	
			Salary	Benefits	Salary	Benefits
Administrator	58	30.0	\$ 582,856	\$ 67,812	\$ 539,680	\$ 58,916
Program Specialist	64	25.6	456,300	63,828	410,756	58,916
Teacher	62	14.6	326,508	35,220	224,032	58,916
Teacher	60	18.0	336,300	67,812	224,032	58,916
Teacher	65	16.5	190,028	20,661	134,419	58,916
Teacher	69	26.5	346,092	37,284	224,032	58,916
Teacher	63	25.5	307,000	36,612	224,032	58,916
Teacher	62	32.0	355,884	20,660	224,032	58,916
Teacher	65	14.1	302,112	77,600	224,032	58,916
Teacher	66	12.9	346,152	20,660	224,032	58,916
			<u>\$ 3,549,232</u>	<u>\$ 448,149</u>	<u>\$ 2,653,079</u>	<u>\$ 589,160</u>

\*Represents four years salary and benefits for each employee.

**Additional Costs**

As a result of this early retirement incentive program, the District expects to incur \$945,932 in additional costs. The breakdown in additional costs is presented below:

Retirement costs	\$ 729,342
Interest	212,270
Administrative costs	4,320
Total	<u>\$ 945,932</u>

**NOTE 17 - RESTATEMENT OF PRIOR YEAR NET POSITION**

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

**Government-Wide Financial Statements**

Net Position - Beginning	\$ (16,682,899)
Inclusion of net OPEB liability from the adoption of GASB Statement No. 75	<u>(11,238,864)</u>
Net Position - Beginning as Restated	<u>\$ (27,921,763)</u>

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***REQUIRED SUPPLEMENTARY INFORMATION***

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# SULPHUR SPRINGS UNION SCHOOL DISTRICT

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

	Budgeted Amounts		Actual (GAAP Basis)	Variances -
	Original	Final		Positive
				(Negative)
				Final to Actual
<b>REVENUES</b>				
Local Control Funding Formula	\$ 43,616,958	\$ 43,708,803	\$ 43,659,435	\$ (49,368)
Federal sources	2,259,252	2,490,103	2,556,489	66,386
Other State sources	3,694,506	4,825,679	4,905,492	79,813
Other local sources	5,380,077	5,714,594	5,894,270	179,676
<b>Total Revenues</b>	<b>54,950,793</b>	<b>56,739,179</b>	<b>57,015,686</b>	<b>276,507</b>
<b>EXPENDITURES</b>				
Current				
Certificated salaries	23,905,368	23,512,801	23,442,123	70,678
Classified salaries	8,751,260	8,910,593	8,653,234	257,359
Employee benefits	15,241,233	15,515,558	15,331,551	184,007
Books and supplies	2,337,051	2,836,753	2,783,096	53,657
Services and operating expenditures	3,643,751	4,976,554	4,954,214	22,340
Capital outlay	25,000	67,097	72,081	(4,984)
Other outgo	635,474	529,697	458,683	71,014
Debt service				
Principal	516,961	516,961	516,961	-
<b>Total Expenditures</b>	<b>55,056,098</b>	<b>56,866,014</b>	<b>56,211,943</b>	<b>654,071</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(105,305)</b>	<b>(126,835)</b>	<b>803,743</b>	<b>930,578</b>
<b>Other Financing Sources</b>				
Transfers out	(500,000)	(500,000)	(507,250)	(7,250)
<b>NET CHANGE IN FUND BALANCES</b>	<b>(605,305)</b>	<b>(626,835)</b>	<b>296,493</b>	<b>923,328</b>
<b>Fund Balances - Beginning</b>	<b>8,675,576</b>	<b>8,675,576</b>	<b>8,675,576</b>	<b>-</b>
<b>Fund Balances - Ending</b>	<b>\$ 8,070,271</b>	<b>\$ 8,048,741</b>	<b>\$ 8,972,069</b>	<b>\$ 923,328</b>

See accompanying note to required supplementary information.

# SULPHUR SPRINGS UNION SCHOOL DISTRICT

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

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	<u>2018</u>
<b>Total OPEB Liability</b>	
Service cost	\$ 708,827
Interest	574,878
Benefit payments	<u>(840,191)</u>
<b>Net change in total OPEB liability</b>	443,514
<b>Total OPEB liability - beginning</b>	<u>16,296,980</u>
<b>Total OPEB liability - ending</b>	<u><u>\$ 16,740,494</u></u>
<b>Covered payroll</b>	<u>N/A<sup>1</sup></u>
<b>District's total OPEB liability as a percentage of covered payroll</b>	<u>N/A<sup>1</sup></u>

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

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

See accompanying note to required supplementary information.

**SULPHUR SPRINGS UNION SCHOOL DISTRICT**

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

	<u>2018</u>	<u>2017</u>
<b>CalSTRS</b>		
District's proportion of the net pension liability	<u>0.0425%</u>	<u>0.0454%</u>
District's proportionate share of the net pension liability	\$ 39,335,551	\$ 36,681,567
State's proportionate share of the net pension liability associated with the District	<u>23,270,579</u>	<u>20,882,162</u>
Total	<u>\$ 62,606,130</u>	<u>\$ 57,563,729</u>
District's covered - employee payroll	<u>\$ 22,714,086</u>	<u>\$ 19,914,371</u>
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	<u>173%</u>	<u>184%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>69%</u>	<u>70%</u>
<b>CalPERS</b>		
District's proportion of the net pension liability	<u>0.0456%</u>	<u>0.0496%</u>
District's proportionate share of the net pension liability	<u>\$ 10,887,686</u>	<u>\$ 9,787,052</u>
District's covered - employee payroll	<u>\$ 5,893,189</u>	<u>\$ 6,021,313</u>
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	<u>185%</u>	<u>163%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>72%</u>	<u>74%</u>

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

See accompanying note to required supplementary information.

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<u>2016</u>	<u>2015</u>
<u>0.05180%</u>	<u>0.05076%</u>
\$ 35,005,607	\$ 29,662,621
<u>12,126,786</u>	<u>11,167,977</u>
<u>\$ 47,132,393</u>	<u>\$ 40,830,598</u>
<u>\$ 20,897,770</u>	<u>\$ 22,493,600</u>
<u>168%</u>	<u>131.87%</u>
<u>74%</u>	<u>77%</u>
<u>0.0549%</u>	<u>0.0548%</u>
<u>\$ 8,090,540</u>	<u>\$ 6,216,593</u>
<u>\$ 5,587,791</u>	<u>\$ 5,747,972</u>
<u>145%</u>	<u>108%</u>
<u>79%</u>	<u>83%</u>

# SULPHUR SPRINGS UNION SCHOOL DISTRICT

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

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	<u>2018</u>	<u>2017</u>
<b>CalSTRS</b>		
Contractually required contribution	\$ 3,149,794	\$ 2,857,432
Contributions in relation to the contractually required contribution	<u>(3,149,794)</u>	<u>(2,857,432)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered - employee payroll	<u>\$ 21,828,094</u>	<u>\$ 22,714,086</u>
Contributions as a percentage of covered - employee payroll	<u>14.43%</u>	<u>12.58%</u>
 <b>CalPERS</b>		
Contractually required contribution	\$ 1,051,053	\$ 818,564
Contributions in relation to the contractually required contribution	<u>(1,051,053)</u>	<u>(818,564)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered - employee payroll	<u>\$ 6,767,452</u>	<u>\$ 5,893,189</u>
Contributions as a percentage of covered - employee payroll	<u>15.53%</u>	<u>13.89%</u>

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

See accompanying note to required supplementary information.

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<u>2016</u>	<u>2015</u>
\$ 2,136,812	\$ 1,855,722
<u>(2,136,812)</u>	<u>(1,855,722)</u>
<u>\$ -</u>	<u>\$ -</u>
<u>\$ 19,914,371</u>	<u>\$ 20,897,770</u>
<u>10.73%</u>	<u>8.88%</u>

\$ 715,332	\$ 657,683
<u>(715,332)</u>	<u>(657,683)</u>
<u>\$ -</u>	<u>\$ -</u>
<u>\$ 6,021,313</u>	<u>\$ 5,587,791</u>
<u>11.88%</u>	<u>11.77%</u>

# SULPHUR SPRINGS UNION SCHOOL DISTRICT

## NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2018

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### NOTE 1 - PURPOSE OF SCHEDULES

#### **Budgetary Comparison Schedule**

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

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

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

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

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

*Change in Benefit Terms* – There were no changes in the benefits terms since the previous valuation.

*Change of Assumptions* – There were no changes of assumptions since the previous valuation.

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

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

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

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

#### **Schedule of District Contributions**

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

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*SUPPLEMENTARY INFORMATION*

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**SULPHUR SPRINGS UNION SCHOOL DISTRICT**

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

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>			
Passed through California Department of Education (CDE):			
Title I, Part A - Low Income and Neglected	84.010	14329	\$ 908,671
Title II, Part A - Supporting Effective Instruction	84.367	14341	146,505
Title III, Part A - English Learner Student Program	84.365	14346	117,760
Passed through Santa Clarita Valley SELPA:			
Special Education Cluster:			
Basic Local Assistance Entitlement, Part B, Sec 611	84.027	13379	731,308
Preschool Local Entitlement, Part B, Sec 611	84.027A	13682	237,705
Preschool Grants, Part B, Sec 619	84.173	13430	63,793
Preschool Staff Development, Part B, Sec 619	84.173A	13431	676
Subtotal Special Education Cluster			<u>1,033,482</u>
Total U.S. Department of Education			<u>2,206,418</u>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
Passed through California Department of Health Services:			
Medi-Cal Assistance Program:			
Medi-Cal Billing Option	93.778	10013	238,308
Medi-Cal Administrative Activities	93.778	10060	111,763
Subtotal Medi-Cal Assistance Program			<u>350,071</u>
Total U.S. Department of Health and Human Services			<u>350,071</u>
Total Expenditures of Federal Awards			<u>\$ 2,556,489</u>

See accompanying note to supplementary information.

# SULPHUR SPRINGS UNION SCHOOL DISTRICT

## LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2018

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### ORGANIZATION

The Sulphur Springs Union School District was established in 1872 and covers the educational services to students living in an area known as Canyon Country within the Santa Clarita Valley. The District operates under a locally elected five-member Board form of government and provides educational services to grades K - 6 as mandated by the State and/or Federal agencies. The District operates nine elementary schools. There were no boundary changes during the year.

### GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Ken Chase	President	December 2018
Denis DeFigueiredo	Clerk	December 2020
Kerry Clegg	Member	December 2018
Lori MacDonald	Member	December 2018
Shelley Weinstein	Member	December 2020

### ADMINISTRATION

Catherine Kawaguchi, Ed. D	Superintendent
Gretchen Bergstrom	Assistant Superintendent, Business Services
Kathy Harris	Assistant Superintendent, Educational Services
Joshua Randall	Assistant Superintendent, Pupil/Personnel Services

See accompanying note to supplementary information.

**SULPHUR SPRINGS UNION SCHOOL DISTRICT**

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

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	Final Report	
	Second Period Report D348F2C5	Annual Report AF4DB330
Regular ADA		
Transitional kindergarten through third	2,953.20	2,959.11
Fourth through sixth	2,225.56	2,224.53
Total Regular ADA	5,178.76	5,183.64
Extended Year Special Education		
Transitional kindergarten through third	7.04	7.04
Fourth through sixth	3.71	3.71
Total Extended Year Special Education	10.75	10.75
Total ADA	5,189.51	5,194.39

See accompanying note to supplementary information.

# SULPHUR SPRINGS UNION SCHOOL DISTRICT

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

Grade Level	1986-87	2017-18	Number of Days		Status
	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Kindergarten	36,000	56,280	180	N/A	Complied
Grades 1 - 3	50,400				
Grade 1		56,280	180	N/A	Complied
Grade 2		56,280	180	N/A	Complied
Grade 3		56,280	180	N/A	Complied
Grades 4 - 6	54,000				
Grade 4		56,280	180	N/A	Complied
Grade 5		56,280	180	N/A	Complied
Grade 6		56,280	180	N/A	Complied

See accompanying note to supplementary information.

**SULPHUR SPRINGS UNION SCHOOL DISTRICT**

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

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

See accompanying note to supplementary information.

# SULPHUR SPRINGS UNION SCHOOL DISTRICT

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

	(Budget) 2019 <sup>1</sup>	2018	2017	2016
<b>GENERAL FUND</b>				
Revenues	\$ 59,186,577	\$ 57,015,686	\$ 56,794,348	\$ 56,143,786
Other sources and transfers in	-	-	1,550,883	-
Total Revenues and Other Sources	59,186,577	57,015,686	58,345,231	56,143,786
Expenditures	58,429,548	56,211,943	55,492,754	51,925,825
Other uses and transfers out	500,000	507,250	215,000	-
Total Expenditures and Other Uses	58,929,548	56,719,193	55,707,754	51,925,825
<b>INCREASE (DECREASE) IN FUND BALANCE</b>	<b>\$ 257,029</b>	<b>\$ 296,493</b>	<b>\$ 2,637,477</b>	<b>\$ 4,217,961</b>
<b>ENDING FUND BALANCE</b>	<b>\$ 9,229,098</b>	<b>\$ 8,972,069</b>	<b>\$ 8,675,576</b>	<b>\$ 6,038,099</b>
<b>AVAILABLE RESERVES <sup>2</sup></b>	<b>\$ 6,311,571</b>	<b>\$ 8,706,186</b>	<b>\$ 8,099,282</b>	<b>\$ 5,278,793</b>
<b>AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO</b>	<b>10.71%</b>	<b>15.35%</b>	<b>14.54%</b>	<b>10.17%</b>
<b>LONG-TERM OBLIGATIONS <sup>3</sup></b>	<b>N/A</b>	<b>\$ 96,803,228</b>	<b>\$ 96,591,931</b>	<b>\$ 83,631,218</b>
<b>K-12 AVERAGE DAILY ATTENDANCE AT P-2</b>	<b>5,187</b>	<b>5,190</b>	<b>5,205</b>	<b>5,206</b>

The General Fund balance has increased by \$2,933,970 over the past two years. The fiscal year 2018-2019 budget projects a further increase of \$257,029 (2.9 percent). For a district this size, the State recommends available reserves of at least 3 percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in each of the past three years and anticipates incurring an operating surplus during the 2018-2019 fiscal year. Total long-term obligations have increased by \$13,172,010 over the past two years.

Average daily attendance has decreased by 19 over the past two years. No change in ADA is anticipated during fiscal year 2018-2019.

<sup>1</sup> Budget 2019 is included for analytical purposes only and has not been subjected to audit.

<sup>2</sup> Available reserves consist of all unassigned fund balances including all amounts reserved for economic uncertainties contained with the General Fund.

<sup>3</sup> Long-term obligations have been restated due to the implementation of GASB Statement No. 75.

See accompanying note to supplementary information.

**SULPHUR SPRINGS UNION SCHOOL DISTRICT**

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

	<b>Child Development Fund</b>	<b>Deferred Maintenance Fund</b>	<b>Bond Interest and Redemption Fund</b>
<b>ASSETS</b>			
Deposits and investments	\$ 279	\$ 202,488	\$ 2,171,039
Receivables	129,413	1,120	-
<b>Total Assets</b>	<b>\$ 129,692</b>	<b>\$ 203,608</b>	<b>\$ 2,171,039</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 84,265	\$ -	\$ -
<b>Fund Balances:</b>			
Restricted	43,636	-	2,171,039
Committed	-	203,608	-
Assigned	1,791	-	-
<b>Total Fund Balances</b>	<b>45,427</b>	<b>203,608</b>	<b>2,171,039</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 129,692</b>	<b>\$ 203,608</b>	<b>\$ 2,171,039</b>

See accompanying note to supplementary information.

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<b>COP Debt Service Fund</b>	<b>Total Non-Major Governmental Funds</b>
\$ 730,233	\$ 3,104,039
102	130,635
<u>\$ 730,335</u>	<u>\$ 3,234,674</u>

<u>\$ -</u>	<u>\$ 84,265</u>
-------------	------------------

730,335	2,945,010
-	203,608
-	1,791
<u>730,335</u>	<u>3,150,409</u>

<u>\$ 730,335</u>	<u>\$ 3,234,674</u>
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**SULPHUR SPRINGS UNION SCHOOL DISTRICT**

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

	<b>Child Development Fund</b>	<b>Deferred Maintenance Fund</b>	<b>Bond Interest and Redemption Fund</b>
<b>REVENUES</b>			
Local Control Funding Formula	\$ -	\$ 100,000	\$ -
Other State sources	665,336	-	16,310
Other local sources	11,042	2,660	1,927,197
<b>Total Revenues</b>	<b>676,378</b>	<b>102,660</b>	<b>1,943,507</b>
<b>EXPENDITURES</b>			
Current			
Instruction	467,728	-	-
Instruction-related activities:			
School site administration	141,414	-	-
Pupil services:			
Food services	4,898	-	-
General Administration:			
All other general administration	33,550	-	-
Plant services	27,522	-	-
Facility acquisition and construction	44,570	-	-
Debt service			
Principal	-	-	35,000
Interest and other	-	-	1,988,955
<b>Total Expenditures</b>	<b>719,682</b>	<b>-</b>	<b>2,023,955</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(43,304)</b>	<b>102,660</b>	<b>(80,448)</b>
<b>Other Financing Sources (Uses)</b>			
Transfers in	7,250	-	-
Other sources - proceeds from capital lease	-	-	-
<b>Net Financing Sources (Uses)</b>	<b>7,250</b>	<b>-</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(36,054)</b>	<b>102,660</b>	<b>(80,448)</b>
<b>Fund Balances - Beginning</b>	<b>81,481</b>	<b>100,948</b>	<b>2,251,487</b>
<b>Fund Balances - Ending</b>	<b>\$ 45,427</b>	<b>\$ 203,608</b>	<b>\$ 2,171,039</b>

See accompanying note to supplementary information.

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<b>COP Debt Service Fund</b>	<b>Total Non-Major Governmental Funds</b>
\$ -	\$ 100,000
-	681,646
3,228	1,944,127
<u>3,228</u>	<u>2,725,773</u>
-	467,728
-	141,414
-	4,898
-	33,550
-	27,522
-	44,570
-	35,000
1,649,375	3,638,330
<u>1,649,375</u>	<u>4,393,012</u>
<u>(1,646,147)</u>	<u>(1,667,239)</u>
500,000	507,250
<u>961,254</u>	<u>961,254</u>
<u>1,461,254</u>	<u>1,468,504</u>
(184,893)	(198,735)
<u>915,228</u>	<u>3,349,144</u>
<u>\$ 730,335</u>	<u>\$ 3,150,409</u>

# SULPHUR SPRINGS UNION SCHOOL DISTRICT

## NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2018

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### NOTE 1 - PURPOSE OF SCHEDULES

#### **Schedule of Expenditures of Federal Awards**

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

#### **Local Education Agency Organization Structure**

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

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

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

#### **Schedule of Instructional Time**

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. The District neither met nor exceeded its target funding. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of *Education Code* Sections 46200 through 46206.

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

#### **Reconciliation of Annual Financial and Budget Report With Audited Financial Statements**

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

#### **Schedule of Financial Trends and Analysis**

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

# SULPHUR SPRINGS UNION SCHOOL DISTRICT

## NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2018

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### **Non-Major Governmental Funds - Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance**

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

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***INDEPENDENT AUDITOR'S REPORTS***

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

We noted certain matters that we reported to management of Sulphur Springs Union School District in a separate letter dated November 27, 2018.

### **Purpose of This Report**

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

*Savinik, Irwin, Day & Co., LLP*

Rancho Cucamonga, California  
November 27, 2018



### ***Opinion on Each Major Federal Program***

In our opinion, Sulphur Springs Union 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 Sulphur Springs Union 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 Sulphur Springs Union 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 Sulphur Springs Union School District's internal control over compliance.

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

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

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

*Savinik, Irwin, Day & Co., LLP*

Rancho Cucamonga, California  
November 27, 2018



***Qualified Opinion on After School Education and Safety Program***

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

***Unmodified Opinion on Each of the Other Programs***

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

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

	<u>Procedures Performed</u>
<b>LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS</b>	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	No, see below
Continuation Education	No, see below
Instructional Time	Yes
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	Yes
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	No, see below
Middle or Early College High Schools	No, see below
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
Apprenticeship: Related and Supplemental Instruction	No, see below
<b>SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS</b>	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After/Before School Education and Safety Program:	
General Requirements	Yes
After School	Yes
Before School	No, see below
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Independent Study - Course Based	No, see below

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

The District does offer an Independent Study Program. However, the ADA is below the threshold at which testing is required; therefore, we did not perform procedures related to Independent Study.

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

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

The District does not offer a Middle or Early College High School; therefore, we did not perform procedures related to the Middle or Early College High School Program.

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

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

The District does not offer a Course-Based Independent Study Program; therefore, we did not perform any procedures related to the Course-Based Independent Study Program.

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

*Savink, Inc., Day & Co., LLP*

Rancho Cucamonga, California  
November 27, 2018

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*SCHEDULE OF FINDINGS AND QUESTIONED COSTS*

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**SULPHUR SPRINGS UNION SCHOOL DISTRICT**

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

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**FINANCIAL STATEMENTS**

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

**FEDERAL AWARDS**

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

Identification of major Federal programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.027, 84.027A, 84.173, and 84.173A	<u>Special Education Cluster</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 750,000</u>
Auditee qualified as low-risk auditee?	<u>No</u>

**STATE AWARDS**

Type of auditor's report issued on compliance for State programs:	<u>Unmodified</u>
Unmodified for all programs except for the following program which was qualified:	
	<u>Name of Program</u>
	<u>After School Education and Safety</u>

**SULPHUR SPRINGS UNION SCHOOL DISTRICT**

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

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None reported.

**SULPHUR SPRINGS UNION SCHOOL DISTRICT**

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

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None reported.

# SULPHUR SPRINGS UNION SCHOOL DISTRICT

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

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The following finding represents instances of noncompliance relating to State program laws and regulations. The findings have been coded as follows:

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
40000	State Compliance

**2018-001      Code 40000**

### **Criteria or Specific Requirements**

According to *Education Code* Section 8483(a)(2), elementary school pupils are to participate in the full day of the program every day during which pupils participate and pupils in middle or junior high school are to attend the after-school program a minimum of nine hours a week and three days a week, except as consistent with the established early release policy. In addition, adequate documentation that supports student attendance must be maintained for each site that offers the program.

### **Condition**

Documentation supporting the number of students served does not agree with the amounts reported on the semi-annual report. The District maintains sign-in/sign-out sheets (rosters) for students in order to track attendance. The auditor tested the program at Canyon Springs Community School, one of two sites operating the program in the District, and recomputed the attendance as indicated on the rosters to determine if total attendance for the month of December 2017 agrees with the amount reported on the semi-annual report. The auditor counted each student on the sign-out sheet who was signed out at or after 6 p.m. and each student who left early and had a documented reason on file for his or her early release. According to the worksheet used to prepare the 2017-2018 First Half Attendance Report, Canyon Springs Community School had 513 student attendance days for the month, but the auditor's count per the criteria described above yielded 506 student attendance days, resulting in a difference of seven days. Variances were a result of a lack of documentation for the reason for early sign out, sign-out time missing, and human error.

### **Questioned Costs**

Under the provisions of the program, there are no questioned costs associated with the condition. However, the number of student served appears to be overstated by seven at Canyon Springs Community School for the month of December 2017.

### **Context**

The condition identified was determined through a review of attendance records from the Canyon Springs Community School in the district that operates the after school program. Manual sign-in/sign-out rosters were reviewed for each child's sign-out time for the first semi-annual reporting period. The auditor then compared the manual rosters to the summaries used to report the number of students served and noted a difference of seven for Canyon Springs Community School.

# SULPHUR SPRINGS UNION SCHOOL DISTRICT

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

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### **Effect**

It appears that the District overstated the number of student attendance days by seven for Canyon Springs Community School for the first semi-annual period.

### **Cause**

It appears that the condition identified has materialized as a result of the District including students in the attendance count who did not have documentation for early release in accordance with the District's policy.

### **Recommendation**

The District should ensure adequate review of the attendance reports prior to submission to the California Department of Education. The District should ensure that early release documentation is on file for all students who leave early. In the event that students do not have a documented reason for early release, the District should not count those students in their count of students served when summarizing attendance information on the semi-annual report.

### **Corrective Action Plan**

The District will ensure that early release documentation is on file for all students who leave early.

# SULPHUR SPRINGS UNION SCHOOL DISTRICT

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

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

### *State Awards Findings*

#### *After School Education and Safety Program*

**2017-001      Code 40000**

#### **Criteria or Specific Requirements**

According to *Education Code* Section 8483(a)(2), elementary school pupils are to participate in the full day of the program every day during which pupils participate and pupils in middle or junior high school are to attend the after-school program a minimum of nine hours a week and three days a week, except as consistent with the established early release policy. In addition, adequate documentation that supports student attendance must be maintained for each site that offers the program.

#### **Condition**

Documentation supporting the number of students served does not agree with the amounts reported on the semi-annual report. The District maintains sign-in/sign-out sheets (rosters) for students in order to track attendance. The auditor tested the program at Mint Canyon Community School, one of two sites operating the program in the District, and recomputed the attendance as indicated on the rosters to determine if total attendance for the month of November 2016 agrees with the amount reported on the semi-annual report. The auditor counted each student on the sign-out sheet who was signed out at or after 6 p.m. and each student who left early and had a documented reason on file for his or her early release. According to the worksheet used to prepare the 2016-2017 First Half Attendance Report, Mint Canyon Community School had 788 student attendance days for the month, but the auditor's count per the criteria described above yielded 754 student attendance days, resulting in a difference of 34 days. Variances were a result of a lack of documentation for the reason for early sign out, sign-out time missing, and human error.

#### **Questioned Costs**

Under the provisions of the program, there are no questioned costs associated with the condition. However, the number of student served appears to be overstated by 34 at Mint Canyon Community School for the month of November 2016.

#### **Context**

The condition identified was determined through a review of attendance records from the Mint Canyon Community School in the district that operates the after school program. Manual sign-in/sign-out rosters were reviewed for each child's sign-out time for the first semi-annual reporting period. The auditor then compared the manual rosters to the summaries used to report the number of students served and noted a difference of 34 for Mint Canyon Community School.

# SULPHUR SPRINGS UNION SCHOOL DISTRICT

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

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### **Effect**

There is not sufficient documentation to support the number of students served as reported to the California Department of Education. It appears that the District overstated the number of student attendance days by 34 for Mint Canyon Community School for the first semi-annual period.

### **Cause**

It appears that the condition identified has materialized as a result of the District including students in the attendance count who did not have documentation for early release.

### **Recommendation**

The District should ensure adequate review of the attendance reports prior to submission to the California Department of Education. The District should ensure that early release documentation is on file for all students who leave early. In the event that students do not have a documented reason for early release, the District should not count those students in their count of students served when summarizing attendance information on the semi-annual report.

### **Current Status**

Not implemented, see current year finding 2018-001.

