

**SADDLEBACK VALLEY
UNIFIED SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2018

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

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FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

Governing Board
Saddleback Valley Unified School District
Mission Viejo, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Saddleback Valley Unified 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, the business-type activities, each major fund, and the aggregate remaining fund information of the Saddleback Valley Unified School District, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter – Correction of Error

As discussed in Note 16 to the financial statements, there were certain items that occurred in the prior year net position and fund balances that have been restated as of June 30, 2017, to more accurately reflect the substance of the underlying transactions. Our opinion is not modified with respect to this matter.

Emphasis of Matter - Change in Accounting Principles

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 14, budgetary comparison schedules on pages 75 and 76, schedule of changes in the District's total OPEB liability and related ratios on page 77, schedule of the District's proportionate share of the net OPEB liability - MPP program on page 78, schedule of the District's proportionate share of the net pension liability on page 79, and the schedule of District contributions on page 80, 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 Saddleback Valley Unified School District's basic financial statements. The accompanying supplementary information such as the combining and individual non-major fund financial statements and Schedule of Expenditures of Federal Awards, as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* and the other supplementary information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

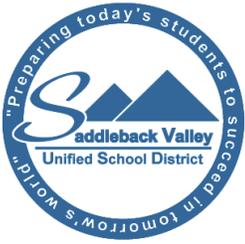
The accompanying supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2018, on our consideration of the Saddleback Valley Unified 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 Saddleback Valley Unified 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 Saddleback Valley Unified School District's internal control over financial reporting and compliance.

VAUZNEK, TRINE, RAY & CO. LLP

Rancho Cucamonga, California
December 17, 2018



SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

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Board of Education

Amanda Morrell, President · Susie Swartz, Vice President · Dr. Edward Wong, Clerk ·
Dolores Winchell, Member · Dennis Walsh, Member

Crystal Turner, Ed.D.
Superintendent

This section of Saddleback Valley Unified School District's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2018, with comparative information for the year ended 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 and business-type activities separately. 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 three categories of activities: governmental, proprietary, and fiduciary.

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

The *Proprietary Funds* are prepared using the economic resources measurement focus and the 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 Saddleback Valley Unified School District.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Position and the Statement of Activities

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

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

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

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

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

Business-Type Activities - The District charges fees to help it cover the costs of certain services it provides. The District's community services program is included here.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

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.

Proprietary Funds - When the District charges users for the services it provides, whether to outside customers or to other departments within the District, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the *Statement of Net Position* and the *Statement of Revenues, Expenses, and Changes in Fund Net Position*. In fact, the District's enterprise funds are the same as the business-type activities we report in the government-wide statements, but provide more detail and additional information, such as cash flows, for proprietary funds. We use internal service funds (the other component of proprietary funds) to report activities that provide supplies and services for the District's other programs and activities, such as the District's Self-Insurance Fund. The internal service funds are reported with governmental activities in the government-wide financial statements.

THE DISTRICT AS A TRUSTEE

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or *fiduciary*, for funds held on behalf of others, like our funds for associated student body activities, scholarships, and the receipt of special taxes for the payment of non-obligatory debt. The District's fiduciary activities are reported in the *Statement of Fiduciary Net Position* and *Statement of Changes in 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.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

THE DISTRICT AS A WHOLE

Net Position

The District's net position was \$64,633,210 for the fiscal year ended June 30, 2018, reflecting a decrease of 11.0 percent since June 30, 2017. Of this amount, \$(224,258,141) was unrestricted. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the governing board's ability to use that net position for day-to-day operations. 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		Business-Type Activities		Total	
	2018	2017, as restated	2018	2017	2018	2017, as restated
Assets						
Current and other assets	\$ 188,085,318	\$ 194,787,001	\$ 1,143,039	\$ 1,161,924	\$ 189,228,357	\$ 195,948,925
Capital assets	350,706,854	363,071,715	28,115	56,891	350,734,969	363,128,606
Total Assets	538,792,172	557,858,716	1,171,154	1,218,815	539,963,326	559,077,531
Deferred Outflows of Resources	95,073,078	61,067,276	505,439	267,113	95,578,517	61,334,389
Liabilities						
Current liabilities	17,960,910	27,343,930	754,498	754,158	18,715,408	28,098,088
Long-term obligations	235,960,449	242,550,660	-	-	235,960,449	242,550,660
Aggregate net pension liability	289,144,328	253,261,266	1,586,566	832,204	290,730,894	254,093,470
Total Liabilities	543,065,687	523,155,856	2,341,064	1,586,362	545,406,751	524,742,218
Deferred Inflows of Resources	25,427,690	22,947,826	74,192	63,538	25,501,882	23,011,364
Net Position						
Net investment in capital assets	222,965,444	227,333,073	28,115	56,891	222,993,559	227,389,964
Restricted	65,897,792	65,801,400	-	-	65,897,792	65,801,400
Unrestricted (deficit)	(223,491,363)	(220,312,163)	(766,778)	(220,863)	(224,258,141)	(220,533,026)
Total Net Position (deficit)	\$ 65,371,873	\$ 72,822,310	\$ (738,663)	\$ (163,972)	\$ 64,633,210	\$ 72,658,338

The \$(224,258,141) in unrestricted net position of the District represents the accumulated results of all past years' operations.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

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, rounds off the numbers, and rearranges them slightly so you can see our total revenues for the year.

Table 2

	Governmental Activities		Business-Type Activities		School District Activities	
	2018	2017	2018	2017	2018	2017
Revenues						
Program revenues:						
Charges for services	\$ 3,351,474	\$ 2,931,341	\$ 3,750,720	\$ 3,631,331	\$ 7,102,194	\$ 6,562,672
Operating grants and contributions	53,923,142	53,915,208	26,572	14,960	53,949,714	53,930,168
Capital grants and contributions	1,841	1,553	-	-	1,841	1,553
General revenues:						
Federal and State aid not restricted	58,311,834	69,849,589	-	-	58,311,834	69,849,589
Property taxes	193,364,697	182,309,117	-	-	193,364,697	182,309,117
Other general revenues	16,313,102	17,869,348	2,089	11,262	16,315,191	17,880,610
Total Revenues	325,266,090	326,876,156	3,779,381	3,657,553	329,045,471	330,533,709
Expenses						
Instruction	225,929,276	224,238,063	-	-	225,929,276	224,238,063
Pupil services	26,405,532	25,025,558	-	-	26,405,532	25,025,558
Administration	13,830,127	14,346,797	-	-	13,830,127	14,346,797
Plant services	24,273,883	22,122,501	-	-	24,273,883	22,122,501
Enterprise activities	8,668	83,382	4,354,072	3,070,036	4,362,740	3,153,418
All other services	42,269,041	43,952,751	-	-	42,269,041	43,952,751
Total Expenses	332,716,527	329,769,052	4,354,072	3,070,036	337,070,599	332,839,088
Change in Net Position	\$ (7,450,437)	\$ (2,892,896)	\$ (574,691)	\$ 587,517	\$ (8,025,128)	\$ (2,305,379)

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

Governmental Activities

As reported in the *Statement of Activities* on page 16, the cost of all of our governmental activities this year was \$332,716,527. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$193,364,697 because the cost was paid by those who benefited from the programs (\$3,351,474) or by other governments and organizations who subsidized certain programs with grants and contributions (\$53,924,983). We paid for the remaining "public benefit" portion of our governmental activities with \$74,624,936 in Federal and State funds, and with other revenues, like interest and general entitlements.

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, enterprise activities, 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	\$ 225,929,276	\$ 224,238,063	\$ 185,081,346	\$ 183,489,698
Pupil services	26,405,532	25,025,558	18,123,094	16,978,413
Administration	13,830,127	14,346,797	12,153,427	12,931,776
Plant services	24,273,883	22,122,501	24,258,239	22,096,473
Enterprise activities	8,668	83,382	8,668	83,382
All other services	42,269,041	43,952,751	35,815,296	37,341,208
Total	\$ 332,716,527	\$ 329,769,052	\$ 275,440,070	\$ 272,920,950

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$142,726,914, which is an increase of \$118,371 from last year (Table 4).

Table 4

	Balances and Activity			
	July 1, 2017, as restated	Revenues	Expenditures	June 30, 2018
General Fund	\$ 76,379,139	\$ 286,878,421	\$ 285,505,963	\$ 77,751,597
Child Development Fund	2,463,526	10,448,522	9,833,722	3,078,326
Capital Facilities Fund	27,238,419	3,943,546	748,238	30,433,727
Special Education				
Pass-Through Fund	-	2,228,751	2,228,751	-
Adult Education Fund	924,304	266,381	1,004,842	185,843
Cafeteria Fund	347,286	6,208,121	6,159,808	395,599
Building Fund	3,350,043	33,789	881,095	2,502,737
County School Facilities Fund	163,250	1,841	(76,863)	241,954
Special Reserve Fund for Capital				
Outlay Projects	9,342,950	2,420,948	396,983	11,366,915
Capital Projects Fund for Blended				
Component Units	172,332	25,416	68,180	129,568
Bond Interest and Redemption	8,786,188	9,870,856	10,270,625	8,386,419
Debt Service Fund for				
Blended Component Units	13,441,106	207,495	5,394,372	8,254,229
Total	\$ 142,608,543	\$ 322,534,087	\$ 322,415,716	\$ 142,726,914

The primary reasons for these increases/decreases are:

- a. The General Fund showed an increase of \$1.4 million which was due to increased LCFF funding along with one-time mandate funds. It is important to note that restricted balances and assigned unrestricted balances account for \$6.4 million of the fund balance.
- b. The Capital Facilities Fund showed an increase of \$2 million from increased fees relating to residential home growth within the District boundaries.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

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. The final amendment to the budget was adopted on June 21, 2018. (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 75.)

The key differences between the original budgets, final budget, and actual results is attributable to:

- \$17.4 million in accumulated depreciation and \$5 million in completed projects including energy management system, site improvements, and technology infrastructure.
- Re-allocation of carryovers including school site gifts, resource allocation, and categorical programs.
- Adjusted revenue and expenditures to project spending amounts and carryovers for current year.
- Adjustments to GAP funding and ADA numbers.

As has been the practice of the District, Saddleback Valley Unified School District does not reallocate categorical program carryover from the prior year until the financial records for the prior year are closed. Consequently, the original budget does not include revenues or expenditures related to categorical or school carryover, while the final budget and actual results reflects these carryovers.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2018, the District had \$350,734,969 in a broad range of capital assets (net of depreciation), including land, buildings, furniture and equipment. This amount represents a net decrease (including additions, deductions, and depreciation) of \$12,393,637, or 3.4 percent, from last year (Table 5).

Table 5

	Governmental Activities		Business-Type Activities		Totals	
	2018	2017	2018	2017	2018	2017
Land and construction in progress	\$ 59,505,094	\$ 68,895,199	\$ -	\$ -	\$ 59,505,094	\$ 68,895,199
Buildings and improvements	283,954,256	285,117,288	-	20,995	283,954,256	285,138,283
Furniture and equipment	7,247,504	9,059,228	28,115	35,896	7,275,619	9,095,124
Total	\$ 350,706,854	\$ 363,071,715	\$ 28,115	\$ 56,891	\$ 350,734,969	\$ 363,128,606

The overall decrease in net capital assets of \$12,393,637 is attributable to district projects which include the installation of solar energy, district wide telephone system, an energy conservation program and other site field and asphalt improvements.

Additional capital projects are planned for the 2018-2019 year. We anticipate capital additions to be approximately \$1.8 million for the 2018-2019 year.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

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

Long-Term Obligations

At the end of this year, the District had \$235,960,449 in long-term obligations versus \$242,550,660 last year, a decrease of \$6,590,211, or 2.7 percent. The obligations consisted of:

Table 6

	<u>Governmental Activities</u>	
	<u>2018</u>	<u>2017, as restated</u>
General obligation bonds - net (financed with property taxes)	\$ 128,353,015	\$ 134,895,649
Public financing authority bonds	11,136,933	14,979,983
Compensated absences	1,534,501	1,727,842
Net other postemployment benefits (OPEB) liability	81,304,225	77,187,618
Claims liability	13,631,775	13,759,568
Total	<u><u>\$ 235,960,449</u></u>	<u><u>\$ 242,550,660</u></u>

Long-term obligations include general obligation bonds, public financing authority bonds, compensated absences, net other postemployment benefits (OPEB) liability, and claims liability. We present more detailed information regarding our long-term obligations in Note 9 of the financial statements.

Net Pension Liability (NPL)

At the end of the year, the District had \$290,730,894 in net pension liability versus \$254,093,470 last year, an increase of \$36,637,424 or 14.4 percent.

SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2017-2018 ARE NOTED BELOW:

Curriculum & Instruction

- Over 890 teachers participated in summer Professional Development, Curriculum Design, and refinement. Creation of Performance Task assessments. District Coordinators continue to provide professional development opportunities and instructional support to all teachers and administrators.
- Instructional and Academic Coaches continue to provide Professional Development opportunities to certificated staff, on-site modeling research-based strategies and methodologies.
- A five year (2018-2023) Arts Education Plan was completed and board approved.
- Rolled out Multi-Tiered System of Supports (MTSS) district wide. Completed our first year as part of the California Scale-Up MTSS Statewide Initiative (SUMS).
- Teachers were trained on the new English Language Proficiency Assessments for California (ELPAC) and administered the assessments to all English Learner students to identify students' language strengths/needs.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

- Successfully rolled out and implemented new K-6 English Language Curriculum (Benchmark Advanced).
- Created Next Generation Science Standards curriculum bundles for grades 9-11.
- Opened a new K-8 Virtual Academy. Created and implemented an On-Track program for grade 9 “social promote” students.
- Created and rolled-out a Signs of Suicide (SOS) prevention program to all 7-8 students.

Educational Technology

- Saturday Ed Tech Summits were expanded with 348 teachers attending 63 sessions.
- Additional online professional development classes were offered, with 40 teachers completing courses on Geo Tools, Scripting and Coding, and Google Sheets
- Over 20 pull-out PD days, many customized for individual schools’ needs were conducted.
- SVUSD teachers presented at nine sessions at the Computer Using Educators conference with over 40+ teachers, administrators, and instructional coaches attending.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

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

The key revenue forecast assumptions are as follows:

- (1) The budget was initially based on the "May Revise," which represents the Governor's final recommended budget to our State Legislature and later revised based on the State adopted budget.

The District's major source of income will be the Local Control Funding Formula. The LCFF is largely based on average daily attendance (ADA). Since the 2003-2004 fiscal year, the District has declined in enrollment by over 6,700 students. Comparing CBEDS, or October census day enrollments, in 2014-2015, the District experienced a decline of 706 students. This was followed in 2015-2016 by an additional decline of 322 students. For 2016-2017, the District's October enrollment declined another 903 students due to a charter school opening within the District boundaries. For 2017-2018, the District declined an additional 601 students.

Other revenues include one-time unrestricted mandated block grant money totaling \$8.6 million.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact the Assistant Superintendent of Business, at Saddleback Valley Unified School District, 25631 Peter A Hartman Way, Mission Viejo, California, 92691, or (949) 586-1234.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

STATEMENT OF NET POSITION JUNE 30, 2018

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Deposits and investments	\$ 170,734,642	\$ 734,396	\$ 171,469,038
Receivables	16,670,444	418,275	17,088,719
Internal balances	9,632	(9,632)	-
Prepaid expenses	344,804	-	344,804
Stores inventories	325,796	-	325,796
Capital assets			
Land and construction in process	59,505,094	-	59,505,094
Other capital assets	547,265,015	574,625	547,839,640
Less: accumulated depreciation	(256,063,255)	(546,510)	(256,609,765)
Total Capital Assets	<u>350,706,854</u>	<u>28,115</u>	<u>350,734,969</u>
Total Assets	<u>538,792,172</u>	<u>1,171,154</u>	<u>539,963,326</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding	3,469,792	-	3,469,792
Deferred outflows of resources related to net other postemployment benefits (OPEB) liability	4,715,315	-	4,715,315
Deferred outflows of resources related to pensions	86,887,971	505,439	87,393,410
Total Deferred Outflows of Resources	<u>95,073,078</u>	<u>505,439</u>	<u>95,578,517</u>
LIABILITIES			
Accounts payable	13,433,411	276,899	13,710,310
Accrued interest payable	2,121,147	-	2,121,147
Unearned revenue	2,406,352	477,599	2,883,951
Long-term obligations:			
Current portion of long-term obligations other than pensions	10,931,662	-	10,931,662
Noncurrent portion of long-term obligations other than pensions	225,028,787	-	225,028,787
Total Long-Term Obligations	<u>235,960,449</u>	<u>-</u>	<u>235,960,449</u>
Aggregate net pension liability	<u>289,144,328</u>	<u>1,586,566</u>	<u>290,730,894</u>
Total Liabilities	<u>543,065,687</u>	<u>2,341,064</u>	<u>545,406,751</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources related to pensions	<u>25,427,690</u>	<u>74,192</u>	<u>25,501,882</u>
NET POSITION			
Net investment in capital assets	222,965,444	28,115	222,993,559
Restricted for:			
Debt service	14,519,501	-	14,519,501
Capital projects	30,675,681	-	30,675,681
Educational programs	4,267,812	-	4,267,812
Other activities	16,434,798	-	16,434,798
Unrestricted	(223,491,363)	(766,778)	(224,258,141)
Total Net Position	<u>\$ 65,371,873</u>	<u>\$ (738,663)</u>	<u>\$ 64,633,210</u>

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

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

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

Functions/Programs	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
Instruction	\$ 196,524,905	\$ 478,065	\$ 37,180,165	\$ 1,841
Instruction-related activities:				
Supervision of instruction	7,562,280	13,213	1,998,536	-
Instructional library, media, and technology	3,744,837	559	122,034	-
School site administration	18,097,254	5,136	1,048,381	-
Pupil services:				
Home-to-school transportation	4,825,893	-	49,866	-
Food services	5,992,488	1,940,765	3,548,506	-
All other pupil services	15,587,151	41,197	2,702,104	-
Administration:				
Data processing	4,880,327	-	6,484	-
All other administration	8,949,800	118,503	1,551,713	-
Plant services	24,273,883	654	14,990	-
Ancillary services	1,545,184	26	40,670	-
Community services	9,381,027	47,454	284,132	-
Enterprise services	8,668	-	-	-
Interest on long-term obligations	4,092,572	-	-	-
Other outgo	9,898,015	705,902	5,375,561	-
Depreciation (unallocated) ¹	17,352,243	-	-	-
Total Governmental Activities	332,716,527	3,351,474	53,923,142	1,841
Business-Type Activities				
Enterprise services	4,354,072	3,750,720	26,572	-
Total School District	\$ 337,070,599	\$ 7,102,194	\$ 53,949,714	\$ 1,841

General revenues and subventions:

- Property taxes, levied for general purposes
- Property taxes, levied for debt service
- Taxes levied for other specific purposes
- Federal and State aid not restricted to specific purposes
- Interest and investment earnings
- Miscellaneous

Subtotal, General Revenues

Change in Net Position

- Net Position - Beginning, as Restated
- Net Position - Ending

¹This amount excludes any depreciation that is included in the direct expenses of the various programs

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

Net (Expenses) Revenues and Changes in Net Position		
Governmental Activities	Business- Type Activities	Total
\$ (158,864,834)	\$ -	\$ (158,864,834)
(5,550,531)	-	(5,550,531)
(3,622,244)	-	(3,622,244)
(17,043,737)	-	(17,043,737)
(4,776,027)	-	(4,776,027)
(503,217)	-	(503,217)
(12,843,850)	-	(12,843,850)
(4,873,843)	-	(4,873,843)
(7,279,584)	-	(7,279,584)
(24,258,239)	-	(24,258,239)
(1,504,488)	-	(1,504,488)
(9,049,441)	-	(9,049,441)
(8,668)	-	(8,668)
(4,092,572)	-	(4,092,572)
(3,816,552)	-	(3,816,552)
(17,352,243)	-	(17,352,243)
<u>(275,440,070)</u>	<u>-</u>	<u>(275,440,070)</u>
-	(576,780)	(576,780)
<u>(275,440,070)</u>	<u>(576,780)</u>	<u>(276,016,850)</u>
181,221,931	-	181,221,931
9,806,320	-	9,806,320
2,336,446	-	2,336,446
58,311,834	-	58,311,834
1,051,376	-	1,051,376
15,261,726	2,089	15,263,815
<u>267,989,633</u>	<u>2,089</u>	<u>267,991,722</u>
(7,450,437)	(574,691)	(8,025,128)
72,822,310	(163,972)	72,658,338
<u>\$ 65,371,873</u>	<u>\$ (738,663)</u>	<u>\$ 64,633,210</u>

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2018

	General Fund	Child Development Fund	Capital Facilities Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS					
Deposits and investments	\$ 79,906,266	\$ 4,706,661	\$ 30,867,255	\$ 27,852,333	\$ 143,332,515
Receivables	10,726,091	307,967	41,237	5,264,752	16,340,047
Due from other funds	1,013,980	99,141	-	1,357,003	2,470,124
Prepaid expenditures	230,014	114,790	-	-	344,804
Stores inventories	292,286	-	-	33,510	325,796
Total Assets	<u>\$ 92,168,637</u>	<u>\$ 5,228,559</u>	<u>\$ 30,908,492</u>	<u>\$ 34,507,598</u>	<u>\$ 162,813,286</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 9,322,337	\$ 735,645	\$ 363,809	\$ 2,191,325	\$ 12,613,116
Due to other funds	3,643,251	628,290	110,956	709,356	5,091,853
Unearned revenue	1,451,452	786,298	-	143,653	2,381,403
Total Liabilities	<u>14,417,040</u>	<u>2,150,233</u>	<u>474,765</u>	<u>3,044,334</u>	<u>20,086,372</u>
Fund Balances:					
Nonspendable	642,300	114,790	-	33,510	790,600
Restricted	4,267,812	-	30,433,727	20,062,839	54,764,378
Assigned	15,877,538	2,963,536	-	11,366,915	30,207,989
Unassigned	56,963,947	-	-	-	56,963,947
Total Fund Balances	<u>77,751,597</u>	<u>3,078,326</u>	<u>30,433,727</u>	<u>31,463,264</u>	<u>142,726,914</u>
Total Liabilities and Fund Balances	<u>\$ 92,168,637</u>	<u>\$ 5,228,559</u>	<u>\$ 30,908,492</u>	<u>\$ 34,507,598</u>	<u>\$ 162,813,286</u>

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

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

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

Total Fund Balance - Governmental Funds		\$ 142,726,914
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	\$ 606,770,109	
Accumulated depreciation is	<u>(256,063,255)</u>	
Net Capital Assets		350,706,854
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.		(2,121,147)
An internal service fund is used by the District's management to charge the costs of the workers' compensation insurance program to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.		15,886,866
Deferred charges on refunding (the difference between the reacquisition price and net carrying amount of refunded debt) are capitalized and amortized over the remaining life of the new or old debt (whichever is shorter) and are included with governmental activities.		3,469,792
Deferred outflows of resources related to pensions represent a consumption of net position in a future period and is not reported in the District's funds. Deferred outflows of resources related to pensions at year-end consist of:		
Pension contributions subsequent to measurement date	23,398,517	
Net change in proportionate share of net pension liability	6,965,560	
Differences between projected and actual earnings on pension plan investments	2,371,873	
Differences between expected and actual experience in the measurement of the total pension liability.	3,272,119	
Changes of assumptions	<u>50,879,902</u>	
Total Deferred Outflows of Resources Related to Pensions		86,887,971
Deferred inflows of resources related to pensions represent an acquisition of net position that applies to a future period and is not reported in the District's funds. Deferred inflows of resources related to pensions at year-end consist of:		
Net change in proportionate share of net pension liability	(14,898,513)	
Differences between projected and actual earnings on pension plan investments	(5,874,649)	
Differences between expected and actual experience in the measurement of the total pension liability.	(3,847,262)	
Changes of assumptions	<u>(807,266)</u>	
Total Deferred Outflows of Resources Related to Pensions		(25,427,690)

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

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

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

Deferred outflows of resources related to OPEB represent a consumption of net position in a future period and is not reported in the District's funds.		
Deferred outflows of resources related to OPEB at year-end consist of amounts paid by the District for OPEB as the benefits come due subsequent to the measurement date.	\$	4,715,315
Net pension liability is not due and payable in the current period, and is not reported as a liability in the funds.		(289,144,328)
Long-term obligations, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.		
Long-term obligations at year-end consist of:		
Bonds payable	\$	113,365,000
Premium on issuance of bonds		14,988,015
Public financing authority bonds		5,490,492
Compensated absences (vacations)		1,534,501
Net other postemployment benefits (OPEB) liability		81,304,225
In addition, the District has issued 'capital appreciation' public financing authority bonds. The accretion of interest unmatured on the public financing authority bonds to date is:		
		5,646,441
		<hr/>
Total Long-Term Obligations		(222,328,674)
Total Net Position - Governmental Activities	\$	65,371,873
		<hr/> <hr/>

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

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

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

	General Fund	Child Development Fund	Capital Facilities Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES					
Local Control Funding Formula	\$ 229,767,090	\$ -	\$ -	\$ -	\$ 229,767,090
Federal sources	11,174,936	15,365	-	4,417,990	15,608,291
Other State sources	41,319,205	5,249	-	2,264,670	43,589,124
Other local sources	4,617,190	10,427,908	3,943,546	14,580,938	33,569,582
Total Revenues	286,878,421	10,448,522	3,943,546	21,263,598	322,534,087
EXPENDITURES					
Current					
Instruction	189,693,364	-	-	275,542	189,968,906
Instruction-related activities:					
Supervision of instruction	7,312,102	-	-	-	7,312,102
Instructional library, media, and technology	4,249,339	-	-	-	4,249,339
School site administration	16,733,560	-	-	190,894	16,924,454
Pupil services:					
Home-to-school transportation	4,823,701	-	-	-	4,823,701
Food services	49,948	-	-	5,893,730	5,943,678
All other pupil services	15,021,355	-	-	84,742	15,106,097
Administration:					
Data processing	4,877,811	-	-	-	4,877,811
All other administration	8,037,802	464,574	-	265,918	8,768,294
Plant services	23,071,795	36,511	-	33,691	23,141,997
Ancillary services	1,522,436	-	-	-	1,522,436
Community services	98,319	9,083,286	-	-	9,181,605
Other outgo	6,841,482	-	-	3,056,533	9,898,015
Enterprise services	21,119	-	-	-	21,119
Facility acquisition and construction	3,151,830	249,351	748,238	1,689,394	5,838,813
Debt service					
Principal	-	-	-	9,595,000	9,595,000
Interest and other	-	-	-	5,242,349	5,242,349
Total Expenditures	285,505,963	9,833,722	748,238	26,327,793	322,415,716
NET CHANGE IN FUND BALANCES	1,372,458	614,800	3,195,308	(5,064,195)	118,371
Fund Balances - Beginning, as Restated	76,379,139	2,463,526	27,238,419	36,527,459	142,608,543
Fund Balances - Ending	\$ 77,751,597	\$ 3,078,326	\$ 30,433,727	\$ 31,463,264	\$ 142,726,914

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

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

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

Total Net Change in Fund Balances - Governmental Funds	\$ 118,371
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:	
<p>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.</p> <p>This is the amount by which depreciation exceeds capital outlay in the period.</p>	
Depreciation expense	\$ (17,352,243)
Capital outlays	<u>4,993,069</u>
Net Expense Adjustment	(12,359,174)
Loss on disposal of capital assets is reported in the government-wide Statement of Net Position but is not recorded in the governmental funds.	(5,687)
In the Statement of Activities, certain operating expenses - compensated absences (vacations) and special termination benefits (retirement incentives) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). There were no special termination benefits this year. Vacation paid was less than the amounts earned by \$193,341.	193,341
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.	(8,553,994)
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, and net OPEB liability during the year.	598,708
Under the modified basis of accounting used in 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	1,322,634
Amortization of deferred charges on refunding	<u>(518,445)</u>
Combined adjustment	804,189

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

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

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

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

General obligation bonds	\$ 5,220,000	
Public financing authority bonds	<u>4,375,000</u>	
Combined adjustment		\$ 9,595,000

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 the two factors. First, accrued interest on the general obligation bonds decreased by \$877,538 and second, \$531,950 of additional interest was accreted on the District's public financing authority bonds.

345,588

An internal service fund is used by the District's management to charge the costs of the workers' compensation insurance program to the individual funds. The net deficit of the Internal Service Fund is reported with governmental activities.

1,813,221

Change in Net Position of Governmental Activities

\$ (7,450,437)

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

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

**PROPRIETARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2018**

	Business-Type Activities Enterprise Fund Community Services Fund	Governmental Activities - Internal Service Fund
ASSETS		
Current Assets		
Deposits and investments	\$ 734,396	\$ 27,402,127
Receivables	418,275	330,397
Due from other funds	21,485	2,631,361
Total Current Assets	1,174,156	30,363,885
Noncurrent Assets		
Furniture and equipment (net)	28,115	-
Total Assets	1,202,271	30,363,885
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows of resources related to pensions	505,439	-
LIABILITIES		
Current Liabilities		
Accounts payable	276,899	820,295
Due to other funds	31,117	-
Unearned revenue	477,599	24,949
Current portion of long-term obligations	-	1,441,662
Noncurrent Liabilities		
Noncurrent portion of long-term obligations	-	12,190,113
Net pension liability	1,586,566	-
Total Liabilities	2,372,181	14,477,019
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources related to pensions	74,192	-
NET POSITION		
Net investment in capital assets	28,115	-
Restricted	-	15,886,866
Unrestricted	(766,778)	-
Total Net Position	\$ (738,663)	\$ 15,886,866

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

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

**PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018**

	Business-Type Activities Enterprise Fund Community Services Fund	Governmental Activities - Internal Service Fund
OPERATING REVENUES		
Local and intermediate sources	\$ 3,750,720	\$ 47,431,294
OPERATING EXPENSES		
Payroll costs	3,051,240	310,371
Supplies and materials	205,187	3,804
Facility rental	34,977	-
Other operating cost	1,062,668	45,503,843
Total Operating Expenses	4,354,072	45,818,018
Operating Income/(Loss)	(603,352)	1,613,276
NONOPERATING REVENUES		
Interest income	2,088	199,945
Grants	26,573	-
Total Nonoperating Revenues	28,661	199,945
Change in Net Position	(574,691)	1,813,221
Net Position - Beginning	(163,972)	14,073,645
Net Position - Ending	\$ (738,663)	\$ 15,886,866

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

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

PROPRIETARY FUNDS STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2018

	Business-Type Activities Enterprise Fund Community Services Fund	Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	\$ 2,691,133	\$ 44,883,727
Other operating cash receipts	1,022,876	(7,186)
Cash payments to other suppliers of goods or services	(199,608)	(680,569)
Cash payments to employees for services	(2,536,313)	(310,388)
Other operating cash payments	(1,033,892)	(45,631,636)
Net Cash Used for Operating Activities	<u>(55,804)</u>	<u>(1,746,052)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Nonoperating grants received	<u>26,573</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	<u>2,088</u>	<u>199,945</u>
Net decrease in cash and cash equivalents	(27,143)	(1,546,107)
Cash and cash equivalents - Beginning	761,539	28,948,234
Cash and cash equivalents - Ending	<u>\$ 734,396</u>	<u>\$ 27,402,127</u>
RECONCILIATION OF OPERATING INCOME/(LOSS) TO NET CASH (USED FOR OPERATING ACTIVITIES):		
Operating income/(loss)	\$ (603,352)	\$ 1,613,276
Adjustments to reconcile operating incomes (loss) to net cash used for operating activities:		
Depreciation	28,776	-
Changes in assets and liabilities:		
Receivables	23,587	18,396
Due from other funds	(20,082)	(2,562,624)
Deferred outflows of resources	(238,326)	-
Accounts payable	40,556	(676,765)
Due to other fund	(11,763)	(17)
Unearned revenue	(40,216)	(10,525)
Claims liability	-	(127,793)
Deferred inflows of resources	10,654	-
Net pension liability	<u>754,362</u>	<u>-</u>
NET CASH USED FOR OPERATING ACTIVITIES	<u>\$ (55,804)</u>	<u>\$ (1,746,052)</u>

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

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

FIDUCIARY FUNDS STATEMENT OF CHANGES IN NET POSITION JUNE 30, 2018

	<u>Agency Funds</u>
ASSETS	
Deposits and investments	\$ 9,525,584
Receivables	9,607
Prepaid expenses	302
Stores inventories	47,745
Total Assets	<u>\$ 9,583,238</u>
LIABILITIES	
Due to student groups	\$ 2,832,349
Due to bondholders	6,750,889
Total Liabilities	<u>\$ 9,583,238</u>

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

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Saddleback Valley Unified School District (the District) was organized in 1973 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 K-12 as mandated by the State and/or Federal agencies. The District operates 23 elementary schools, four intermediate schools, four high schools, one special education school, one independent high school, one continuation high school, and one adult education school.

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 Saddleback Valley Unified School District, this includes general operations, food service, and student related activities of the District.

Component Units

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

The Saddleback Valley Unified School District Public Financing Authority (the Authority) is a nonprofit, public benefit corporation incorporated under the laws of the State of California and recorded by the Secretary of State. The Authority was formed for the sole purpose of providing financial assistance to the District by acquiring, constructing, financing, selling, and leasing public facilities, land, personal property, and equipment for the use and benefit of the District. The District leases certain school facilities from the corporation under various lease-purchase agreements recorded in long-term obligations.

The Authority's financial activity is presented in the financial statements as the Capital Project Fund for Blended Component Units and the Debt Service Fund for Blended Component Units. Bonds issued by the Corporation are included as long-term obligations in the government-wide financial statements. Individually-prepared financial statements are not prepared for the Authority.

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The District established Community Facilities Districts (CFD) No. 88-1, 88-2, 89-1, 89-2, 89-3, and 89-4 to authorize the levy of special taxes. The purpose of the agreement is to provide for the issuance of certain debt obligations to provide and finance the design, acquisition, and construction of certain public facilities, pursuant to the Mello-Roos Community Facilities Act of 1982, as amended. The CFD is authorized to levy special taxes on parcels of taxable property within the CFD to pay the principal and interest on the bonds. The CFD financial activity is presented in the Agency Fund. Debt instruments issued by the CFD do not represent liabilities of the District or component unit and are not included in the District-wide financial statements.

Other Related Entities

Charter School The District has an approved Charter for Ralph A. Gates Elementary School (Charter No. 0157) pursuant to *Education Code* Section 47605. The Charter School is operated by the District, and its financial activities are presented in the District's financial statements. The Charter School is not operated by a separate governing board and is considered a component unit of the District. The Charter School receives State and Federal funds for specific purposes that are subject to review and audit by the grantor agencies.

Basis of Presentation Fund Accounting

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

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

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.

One fund currently defined as a special revenue fund in the California State Accounting Manual (CSAM) does not meet the GASB Statement No. 54 special revenue fund definition. Specifically, Fund 14, Deferred Maintenance Fund is not substantially composed of restricted or committed revenue sources. While this fund is authorized by statute and will remain open for internal reporting purposes, this fund functions effectively as an extension of the General Fund, and accordingly has been combined with the General Fund for presentation in these audited financial statements.

As a result, the General Fund reflects an increase in revenues and expenditures of \$1,143 and \$414,457, respectively.

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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.

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).

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.

Special Education Pass-Through Fund The Special Education Pass-Through Fund is used by the Administrative Unit of a multi-district Special Education Local Plan Area (SELPA) to account for Special Education revenue passed through to other member districts.

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

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

Capital Project Funds The Capital Project funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and other capital assets (other than those financed by proprietary funds and trust funds).

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

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

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

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

Capital Projects Fund for Blended Component Units The Capital Projects 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).

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).

Debt Service Fund for Blended Component Units The Debt Service Fund for Blended Component Units is used for the accumulation of resources for and the retirement of principal and interest on debt issued by entities that are considered blended component units of the District under Generally Accepted Accounting Principles (GAAP).

Proprietary Funds Proprietary funds are used to account for activities that are more business-like than government-like in nature. Business-type activities include those for which a fee is charged to external users or to other organizational units of the local education agency, normally on a full cost-recovery basis. Proprietary funds are generally intended to be self-supporting and are classified as enterprise or internal service. The District has the following proprietary funds:

Enterprise Fund Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The only enterprise fund of the District accounts for the financial transactions related to the community services program of the District.

Internal Service Fund Internal Service funds may be used to account for goods or services provided to other funds of the District on a cost-reimbursement basis. The District operates health and welfare, property and liability, and workers' compensation programs accounted for in an internal service fund.

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

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

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

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Basis of Accounting - Measurement Focus

Government-Wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements, but differs from the manner in which governmental fund financial statements are prepared.

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and program revenues of the activities of the District, and for each governmental function, and exclude 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 allocates 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 or business segment 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 position are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net position restricted for other activities result from special revenue funds, and the internal service fund, and the restrictions on their use.

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

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

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

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

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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 45 or 60 days. However, to achieve comparability of reporting among California districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to State-aid apportionments, the California Department of Education has defined available for districts as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

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

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

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

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable, and typically paid within 90 days. Principal and interest on long-term obligations, which 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.

Cash and Cash Equivalents

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

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

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Investments

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

Prepaid Expenditures (Expenses)

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

Stores Inventories

Inventories consist of expendable food and 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 and expenses in the fiduciary funds when used.

Capital Assets and Depreciation

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

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

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

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

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental and business-type activities columns of the Statement of Net Position, except for the net residual amounts due between governmental and business-type activities, which are represented as internal balances.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

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

However, claims and judgments, compensated absences, special termination benefits, and contractually required pension contributions that will be paid from 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 and other long-term obligations are recognized as liabilities in the governmental fund financial statements when due.

Deferred Outflows/Inflows of Resources

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

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

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

Bond Premiums

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

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. The District currently does not have any committed funds.

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.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

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Spending Order Policy

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

Minimum Fund Balance Policy

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

Net Position

Net position represents the difference between assets and liabilities. Net position net of investment in capital assets 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 \$65,897,792 of restricted net position, which is restricted by enabling legislation.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are charges for community service program fees and to other funds for self-insurance. Operating expenses are necessary costs incurred to provide the good or service, that is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Interfund Activity

Transfers between governmental and business-type activities in the government-wide financial statements are reported in the same manner as general revenues.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for 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 and business-type activities column of the Statement of Activities, except for the net residual amounts transferred between governmental and business-type activities.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

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Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Property Tax

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

Change in Accounting Principles

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

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

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

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

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation;
- Reporting amounts previously reported as goodwill and "negative" goodwill;
- Classifying real estate held by insurance entities;
- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost;

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

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- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus;
- Recognizing on behalf payments for pensions or OPEB in employer financial statements;
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB;
- Classifying employer-paid member contributions for OPEB;
- Simplifying certain aspects of the alternative measurement method for OPEB; and
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

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

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

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

New Accounting Pronouncements

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

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

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

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

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

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

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

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

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

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

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

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

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

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

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

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

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

Governmental activities	\$ 170,734,642
Business-type activities	734,396
Fiduciary funds	9,525,584
Total Deposits and Investments	<u>\$ 180,994,622</u>

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

Cash on hand and in banks	\$ 2,784,055
Cash in revolving	2,507,945
Investments	175,702,622
Total Deposits and Investments	<u>\$ 180,994,622</u>

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Policies and Practices

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

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

General Authorizations

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

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

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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 primarily in the Orange County Treasury Investment Pool and purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuation is provided by the following schedule that shows the distribution of the District's investment by maturity:

Investment Type	Amount Reported	Average Maturity in Days/ Maturity Date
Orange County Treasury Investment Pool	\$ 165,484,183	302 days
Federated Treasury Obligations Fund	5,991,847	27 days
AIG Matched Funding Corporation Investment Agreement	1,278,099	09/01/20
Societe Generale Investment Agreement	2,948,493	09/01/20
Total	\$ 175,702,622	

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the *California Government Code*, the District's investment policy, or debt agreements, and the actual rating as of the year-end for each investment type.

The investment in the Orange County Treasury Investment Pool is not required to be rated, nor has it been rated as of June 30, 2018. The investment in Federated Treasury Obligations Fund has been rated Aaa-mf by Moody's Investor Service as of June 30, 2018. The investment in AIG Matched Funding Corporation Investment Agreement has been rated Baa1 by Moody's Investor Service as of June 30, 2018. The investment in Societe Generale Investment Agreement has been rated A1 by Moody's Investor Service as of June 30, 2018.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Concentration of Credit Risk

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

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the *California Government Code* requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2018, the District's bank balance of \$3,944,376 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

Custodial Credit Risk - Investments

This is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. Of the investments in AIG Matched Funding Corporation Investment Agreement of \$1,278,099 and Societe Generale Investment Agreement of \$2,948,493, the District has a custodial credit risk exposure of \$4,226,592 because the related securities are uninsured, unregistered and held by the brokerage firm which is also the counterparty for these securities. The District does not have a policy limiting the amount of securities that can be held by counterparties.

SADDLEBACK VALLEY UNIFIED 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 Orange County Treasury Investment Pool are not measured using the input levels above because the District's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at \$1.00 net asset value per share.

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

<u>Investment Type</u>	<u>Reported Amount</u>	<u>Level 2 Inputs</u>	<u>Uncategorized</u>
Orange County Treasury Investment Pool	\$ 165,484,183	\$ -	\$ 165,484,183
Federated Treasury Obligations Fund	5,991,847	5,991,847	-
AIG Matched Funding Corporation Investment Agreement	1,278,099	1,278,099	-
Societe Generale Investment Agreement	2,948,493	2,948,493	-
Total	<u>\$ 175,702,622</u>	<u>\$ 10,218,439</u>	<u>\$ 165,484,183</u>

SADDLEBACK VALLEY UNIFIED 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	Child Development Fund	Capital Facilities Fund	Non-Major Governmental Funds
Federal Government				
Categorical aid	\$ 6,655,498	\$ 6,416	\$ -	\$ 181,281
State Government				
Categorical aid	1,959	-	-	254,656
Lottery	1,178,847	-	-	-
Special education	556,571	-	-	-
Local Government				
Interest	122,581	5,886	41,237	39,128
Regional occupational program (ROP)	472,048	-	-	-
Other Local Sources	1,738,587	295,665	-	4,789,687
Total	<u>\$ 10,726,091</u>	<u>\$ 307,967</u>	<u>\$ 41,237</u>	<u>\$ 5,264,752</u>

	Internal Service Fund	Total Governmental Activities	Enterprise Fund Community Services Fund	Fiduciary Funds
Federal Government				
Categorical aid	\$ -	\$ 6,843,195	\$ -	\$ -
State Government				
Categorical aid	-	256,615	-	-
Lottery	-	1,178,847	-	-
Special education	-	556,571	-	-
Local Government				
Interest	32,649	241,481	497	-
Regional occupational program (ROP)	-	472,048	-	-
Other Local Sources	297,748	7,121,687	417,778	9,607
Total	<u>\$ 330,397</u>	<u>\$ 16,670,444</u>	<u>\$ 418,275</u>	<u>\$ 9,607</u>

The \$4,785,319 included above in the Debt Service (Non-Major Governmental) Fund for Blended Component Units will be paid to the public financing authority bonds (PFA) from special taxes on parcels of taxable property within the CFD used to pay the principal and interest on the bonds. The payments will continue through the life of the refinanced bonds.

SADDLEBACK VALLEY UNIFIED 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
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	\$ 39,487,653	\$ -	\$ -	\$ 39,487,653
Construction in progress	29,407,546	1,555,451	10,945,556	20,017,441
Total Capital Assets Not Being Depreciated	<u>68,895,199</u>	<u>1,555,451</u>	<u>10,945,556</u>	<u>59,505,094</u>
Capital Assets Being Depreciated:				
Land improvements	60,415,795	105,189	-	60,520,984
Buildings and improvements	442,763,105	13,967,582	-	456,730,687
Furniture and equipment	29,975,574	310,403	272,633	30,013,344
Total Capital Assets Being Depreciated	<u>533,154,474</u>	<u>14,383,174</u>	<u>272,633</u>	<u>547,265,015</u>
Total Capital Assets	<u>602,049,673</u>	<u>15,938,625</u>	<u>11,218,189</u>	<u>606,770,109</u>
Less Accumulated Depreciation:				
Land improvements	27,855,494	2,620,029	-	30,475,523
Buildings and improvements	190,206,118	12,615,774	-	202,821,892
Furniture and equipment	20,916,346	2,116,440	266,946	22,765,840
Total Accumulated Depreciation Governmental Activities	<u>238,977,958</u>	<u>17,352,243</u>	<u>266,946</u>	<u>256,063,255</u>
Capital Assets, Net	<u>\$ 363,071,715</u>	<u>\$ (1,413,618)</u>	<u>\$ 10,951,243</u>	<u>\$ 350,706,854</u>
Business-Type Activities				
Capital Assets Being Depreciated:				
Buildings and improvements	\$ 500,000	\$ -	\$ -	\$ 500,000
Furniture and equipment	74,625	-	-	74,625
Total Capital Assets Being Depreciated	<u>574,625</u>	<u>-</u>	<u>-</u>	<u>574,625</u>
Less Accumulated Depreciation:				
Buildings and improvements	479,005	20,995	-	500,000
Furniture and equipment	38,729	7,781	-	46,510
Total Accumulated Depreciation Business-Type Activities Capital Assets, Net	<u>517,734</u>	<u>28,776</u>	<u>-</u>	<u>546,510</u>
Assets, Net	<u>\$ 56,891</u>	<u>\$ (28,776)</u>	<u>\$ -</u>	<u>\$ 28,115</u>

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

Governmental Activities		
Unallocated		<u>\$ 17,352,243</u>
Business-Type Activities		
Enterprise		<u>\$ 28,776</u>

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

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

NOTE 6 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

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

Due To	Due From					Total
	General Fund	Child Development Fund	Capital Facilities Fund	Non-Major Governmental Funds	Enterprise Fund Community Services Fund	
General Fund	\$ -	\$ 545,454	\$ 110,956	\$ 343,063	\$ 14,507	\$ 1,013,980
Child Development Fund	99,141	-	-	-	-	99,141
Non-Major Governmental Funds	1,037,336	19	-	319,648	-	1,357,003
Enterprise Fund Community Services Fund	21,485	-	-	-	-	21,485
Internal Service Fund	2,485,289	82,817	-	46,645	16,610	2,631,361
Total	\$ 3,643,251	\$ 628,290	\$ 110,956	\$ 709,356	\$ 31,117	\$ 5,122,970

The balance of \$545,454 due to the General Fund from the Child Development Fund resulted from indirect costs and reimbursement of salaries and benefits paid.

A balance of \$266,509 due to the General Fund from the Cafeteria Non-Major Governmental Fund resulted from indirect costs and reimbursement of salaries and benefits paid.

The balance of \$110,956 due to the General Fund from the Capital Facilities Fund resulted from administrative developer fees.

A balance of \$931,559 due to the Special Education Pass-Through Non-Major Governmental Fund from the General Fund resulted from transfer to special education funds.

The balance of \$2,485,289 due to the Internal Service Fund from the General Fund resulted from insurance premiums for health and welfare.

A balance of \$308,510 due to the Special Reserve Non-Major Governmental Fund for Capital Outlay Projects from the Building Non-Major Governmental Fund resulted from reclassification of building/modernization expenditures.

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

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

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

NOTE 7 - ACCOUNTS PAYABLE

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

	General Fund	Child Development Fund	Capital Facilities Fund	Non-Major Governmental Funds
LCFF principal apportionment	\$ 184,643	\$ -	\$ -	\$ -
Salaries and benefits	5,515,306	652,926	94,713	711,407
Books and supplies	525,685	45,321	-	121,494
Construction	207,676	-	265,484	293,114
Services and other operating payables	2,476,445	34,424	3,612	948,666
Other vendor payables	412,582	2,974	-	116,644
Total	<u>\$ 9,322,337</u>	<u>\$ 735,645</u>	<u>\$ 363,809</u>	<u>\$ 2,191,325</u>

	Internal Service Fund	Total Governmental Activities	Enterprise Fund Community Services Fund
LCFF principal apportionment	\$ -	\$ 184,643	\$ -
Salaries and benefits	55,447	7,029,799	191,428
Books and supplies	-	692,500	11,907
Construction	-	766,274	-
Services and other operating payables	764,848	4,227,995	73,564
Other vendor payables	-	532,200	-
Total	<u>\$ 820,295</u>	<u>\$ 13,433,411</u>	<u>\$ 276,899</u>

NOTE 8 - UNEARNED REVENUE

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

	General Fund	Child Development Fund	Non-Major Governmental Funds	Internal Service Fund	Total Governmental Activities	Enterprise Fund Community Services Fund
Federal financial assistance	\$ 164,928	\$ -	\$ -	\$ -	\$ 164,928	\$ -
State categorical aid	1,194,321	-	-	-	1,194,321	-
Other local	92,203	786,298	143,653	24,949	1,047,103	477,599
Total	<u>\$ 1,451,452</u>	<u>\$ 786,298</u>	<u>\$ 143,653</u>	<u>\$ 24,949</u>	<u>\$ 2,406,352</u>	<u>\$ 477,599</u>

SADDLEBACK VALLEY UNIFIED 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:

	Balance July 1, 2017, as restated	Additions	Deductions	Balance June 30, 2018	Due in One Year
General obligation bonds	\$ 118,585,000	\$ -	\$ 5,220,000	\$ 113,365,000	\$ 5,665,000
Premium on issuance	16,310,649	-	1,322,634	14,988,015	-
Public Financing Authority Bonds	14,979,983	531,950	4,375,000	11,136,933	3,825,000
Compensated absences	1,727,842	-	193,341	1,534,501	-
Net other postemployment benefits (OPEB) liability	77,187,618	9,086,357	4,969,750	81,304,225	-
Claims liability	13,759,568	21,723,528	21,851,321	13,631,775	1,441,662
	<u>\$ 242,550,660</u>	<u>\$ 31,341,835</u>	<u>\$ 37,932,046</u>	<u>\$ 235,960,449</u>	<u>\$ 10,931,662</u>

Payments made on the general obligation bonds are made by the Bond Interest and Redemption Fund with local revenues. Payments for the public financing authority bonds are made in the Debt Service Fund for Blended Component Units. The compensated absences will be paid by the fund for which the employees worked. Net other postemployment benefits (OPEB) liability are generally paid by the General Fund. The claims liability is paid from the Internal Service Fund.

General Obligation Bonds

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2017	Redeemed	Bonds Outstanding June 30, 2018
01/24/07	08/01/18	3.5-5.0%	\$ 60,000,000	\$ 2,000,000	\$ 2,000,000	\$ -
05/09/13	08/01/29	2.0-5.0%	71,865,000	65,760,000	2,680,000	63,080,000
09/26/13	08/01/29	2.0-5.0%	10,000,000	7,685,000	155,000	7,530,000
08/02/16	08/01/30	2.0-4.0%	10,000,000	10,000,000	300,000	9,700,000
08/02/16	08/01/30	3.0-4.0%	33,140,000	33,140,000	85,000	33,055,000
				<u>\$ 118,585,000</u>	<u>\$ 5,220,000</u>	<u>\$ 113,365,000</u>

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

2004 Election General Obligation Bonds, Series 2007A

On January 24, 2007, the District issued the \$60,000,000 2004 Election General Obligation Bonds, Series 2007A. The 2007 Series A were issued as current interest bonds, and have a final maturity to occur on August 1, 2018. Interest rates on the bonds range from of 3.50 to 5.00 percent. Proceeds from the sale of the bonds were to be used for the purpose of paying for new construction, reconstruction, or modernization of some or all of the schools within the District. On August 2, 2016, the District issued \$33,140,000 in 2016 General Obligation Refunding Bonds. The bonds were issued to advanced refund a portion of the outstanding General Obligation Bonds, Election of 2004, Series 2007A. At June 30, 2018, the 2004 General Obligation Bonds, Series 2007A were paid in full.

2011 General Obligation Refunding Bonds

On May 9, 2013, the District issued the \$71,865,000, 2011 General Obligation Refunding Bonds. The 2011 General Obligation Refunding Bonds were issued as current interest bonds, and have a final maturity to occur on August 1, 2029. Interest rates on the bonds range from of 2.00 to 5.00 percent. The net proceeds of \$84,632,985 (representing the principal amount of \$71,865,000 plus premium on issuance of \$13,296,488 minus cost of issuance of \$528,503) from the issuance were used to advance refund a portion of the District's 2004 Election General Obligation Bonds, Series 2004A. At June 30, 2018, the principal balance outstanding of the 2011 General Obligation Refunding Bonds was \$63,080,000 and unamortized premium on issuance and deferred charge on refunding were \$9,141,335 and \$3,469,792, respectively.

2004 Election General Obligation Bonds, Series 2013A

On September 26, 2013, the District issued the \$10,000,000 2004 Election General Obligation Bonds, Series 2013A. The 2013 Series A were issued current interest bonds, and have a final maturity to occur on August 1, 2029. Interest rates on the bonds range from of 2.00 to 5.00 percent. Proceeds from the sale of the bonds were to be used for the purpose of paying for new construction, reconstruction, or modernization of some or all of the schools within the District. At June 30, 2018, the principal balance outstanding of the 2004 General Obligation Bonds, Series 2013A was \$7,530,000 and unamortized premium on issuance was \$788,170.

2004 Election General Obligation Bonds, Series 2016A

On August 2, 2016, the District issued the \$10,000,000 2004 Election General Obligation Bonds, Series 2016A. The Series 2016A were issued current interest bonds, and have a final maturity to occur on August 1, 2030. Interest rates on the bonds range from of 2.00 to 4.00 percent. Proceeds from the sale of the bonds are to be used for the purpose of repairing, upgrading, acquisition, construction, and equipping of District sites and facilities. At June 30, 2018, the principal balance outstanding of the 2004 General Obligation Bonds, Series 2016A was \$9,700,000 and unamortized premium on issuance was \$593,624.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

2016 General Obligation Refunding Bonds

On August 2, 2016, the District issued the \$33,140,000 2016 General Obligation Refunding Bonds. The 2016 General Obligation Refunding Bonds have a final maturity to occur on August 1, 2030. Interest rates on the bonds range from 3.00 to 4.00 percent. The bonds were issued to advanced refund a portion of the outstanding General Obligation Bonds, Election of 2004, Series 2007A and pay the related financing costs associated with the issuance. At June 30, 2018, the principal balance outstanding of the 2016 General Obligation Refunding Bonds was \$33,055,000 and unamortized premium on issuance was \$4,464,886.

Debt Service Requirements to Maturity

The bonds mature through 2031 as follows:

Fiscal Year	Principal	Current Interest	Total
2019	\$ 5,665,000	\$ 4,848,600	\$ 10,513,600
2020	5,855,000	4,618,200	10,473,200
2021	6,400,000	4,373,100	10,773,100
2022	6,980,000	4,083,675	11,063,675
2023	7,630,000	3,745,500	11,375,500
2024-2028	48,990,000	12,500,875	61,490,875
2029-2031	31,845,000	1,538,950	33,383,950
Total	\$ 113,365,000	\$ 35,708,900	\$ 149,073,900

Public Financing Authority Bonds

The Public Financing Authority (PFA) was created to obtain economies of scale by refinancing the Community Facilities Districts (CFD) debt. PFA 95 refinanced the debt for CFD 88-2, 89-1, and 89-4. PFA 96 refinanced the debt for CFD 88-1, 89-2 and 89-3. PFA 98 refinanced the debt for CFD 88-1, 89-2, 89-3 and 89-4.

The outstanding debt incurred through bonds issued in connection with the PFA at June 30, 2018, is as follows:

Issue Reference	Original Issue	PFAs			PFAs	
		Outstanding July 1, 2017	Accreted	Redeemed	Outstanding June 30, 2018	
PFA 95	\$ 16,265,000	\$ 670,000	\$ -	\$ 670,000	\$ -	
PFA 96	29,484,918	10,214,983	531,950	2,785,000	7,961,933	
PFA 98	13,705,000	4,095,000	-	920,000	3,175,000	
		\$ 14,979,983	\$ 531,950	\$ 4,375,000	\$ 11,136,933	

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

The annual requirements to amortize the bonds issued in connection with the PFA outstanding as of June 30, 2018, are as follows:

Year Ending June 30,	Principal Including Accreted Interest	Accreted Interest	Interest	Total
2019	\$ 3,743,606	\$ 81,394	\$ 127,418	\$ 3,952,418
2020	3,711,241	243,759	78,850	4,033,850
2021	3,682,086	402,914	26,838	4,111,838
Total	<u>\$ 11,136,933</u>	<u>\$ 728,067</u>	<u>\$ 233,106</u>	<u>\$ 12,098,106</u>

Compensated Absences

The long-term portion of compensated absences (accumulated unpaid employee vacation) for the District at June 30, 2018, amounted to \$1,534,501.

Net Postemployment Benefit (OPEB) Liability

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

OPEB Plan	Net OPEB Liability	Deferred Outflows of Resources	OPEB Expense
District Plan	\$ 79,483,868	\$ 4,715,315	\$ 4,299,191
Medicare Premium Payment (MPP) Program	1,820,357	-	(182,584)
Total	<u>\$ 81,304,225</u>	<u>\$ 4,715,315</u>	<u>\$ 4,116,607</u>

The details of each plan are as follows:

District Plan

Plan Administration

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

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Plan Membership

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

Inactive employees or beneficiaries currently receiving benefits payments	240
Active employees	1,917
	<hr/>
	<u>2,157</u>

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 Saddleback Valley Educators Association (SVEA), 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, SVEA, CSEA, and the unrepresented groups. For fiscal year 2016-2017, the District paid \$4,787,166 in benefits.

Total OPEB Liability of the District

The District's total OPEB liability of \$79,483,868 was measured as of June 30, 2017 and was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75 percent
Salary increases	2.75 percent
Discount rate	3.50 percent
Healthcare cost trend rates	4.00 percent

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

Mortality rates were based on the 2009 CalSTRS Mortality Table for certificated employees and the 2014 CalPERS Active Mortality for Miscellaneous Employees Table for classified employees. 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.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

The actual assumptions used in the June 30, 2017 valuation were based on the results of an actual experience study for the period July 1, 2016 to June 30, 2017.

Changes in the Total OPEB Liability

	<u>Total OPEB Liability</u>
Balance at June 30, 2016	\$ 75,184,677
Service cost	6,429,251
Interest	2,657,106
Benefit payments	(4,787,166)
Net change in total OPEB liability	<u>4,299,191</u>
Balance at June 30, 2017	<u>\$ 79,483,868</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 rate:

<u>Discount Rate</u>	<u>Total OPEB Liability</u>
1% decrease (2.5%)	\$ 84,196,680
Current discount rate (3.5%)	79,483,868
1% increase (4.5%)	75,120,109

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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:

<u>Healthcare Cost Trend Rates</u>	<u>Total OPEB Liability</u>
1% decrease (3.0%)	\$ 76,307,530
Current healthcare cost trend rate (4.0%)	79,483,868
1% increase (5.0%)	82,066,502

OPEB Expense and Deferred Outflows of Resources related to OPEB

For the year ended June 30, 2018, the District recognized OPEB expense of \$4,299,191. At June 30, 2018, the District reported deferred outflows of resources for amount paid by the District for OPEB as the benefits come due subsequent to measurement date of \$4,715,315.

Medicare Premium Payment (MPP) Program

Plan Description

The Medicare Premium Payment (MPP) Program is administered by the California State Teachers' Retirement System (CalSTRS). The MPP Program is a cost-sharing multiple-employer other postemployment benefit plan (OPEB) established pursuant to Chapter 1032, Statutes 2000 (SB 1435). CalSTRS administers the MPP Program through the Teachers' Health Benefits Fund (THBF).

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

Benefits Provided

The MPP Program pays Medicare Part A premiums and Medicare Parts A and B late enrollment surcharges for eligible members of the State Teachers Retirement Plan (STRP) Defined Benefit (DB) Program who were retired or began receiving a disability allowance prior to July 1, 2012 and were not eligible for premium free Medicare Part A. The payments are made directly to the Centers for Medicare and Medicaid Services (CMS) on a monthly basis.

The MPP Program is closed to new entrants as members who retire after July 1, 2012, are not eligible for coverage under the MPP Program.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

The MPP Program is funded on a pay-as-you go basis from a portion of monthly District benefit payments. In accordance with California *Education Code* Section 25930, benefit payments that would otherwise be credited to the DB Program each month are instead credited to the MPP Program to fund monthly program and administrative costs. Total redirections to the MPP Program are monitored to ensure that total incurred costs do not exceed the amount initially identified as the cost of the program.

Net OPEB Liability and OPEB Expense

At June 30, 2018, the District reported a liability of \$1,820,357 for its proportionate share of the net OPEB liability for the MPP Program. The net OPEB liability was measured as of June 30, 2016, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB Plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2017 and June 30, 2016, respectively, was 0.4327 percent, and 0.4280 percent, resulting in a net increase in the proportionate share of 0.0047 percent.

For the year ended June 30, 2018, the District recognized OPEB expense of \$(182,584).

Actuarial Methods and Assumptions

The total OPEB liability for the MPP Program as of June 30, 2016, was determined based on a financial reporting actuarial valuation that used the June 30, 2016 assumptions presented in the table below. The June 30, 2017 total OPEB liability was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total OPEB liability to June 30, 2017, using the assumptions listed in the following table:

Measurement Date	June 30, 2017	June 30, 2016
Valuation Date	June 30, 2016	June 30, 2016
Experience Study	July 1, 2010 through June 30, 2016	July 1, 2010 through June 30, 2015
Actuarial Cost Method	Entry age normal	Entry age normal
Investment Rate of Return	3.58%	2.85%
Medicare Part A Premium Cost Trend Rate	3.70%	3.70%
Medicare Part B Premium Cost Trend Rate	4.10%	4.10%

For the valuation as of June 30, 2016, CalSTRS used custom mortality tables based on RP2000 Series tables issued by the Society of Actuaries, adjusted to fit CalSTRS specific experience through June 30, 2015. For the valuation as of June 30, 2017, CalSTRS changed the mortality assumptions based on the July 1, 2010 through June 30, 2015, experience study adopted by the board in February 2017. CalSTRS now uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among the members. The projection scale was set equal to 110 percent of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table, issued by the Society of Actuaries.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Assumptions were made about future participation (enrollment) into the MPP Program because CalSTRS is unable to determine which members not currently participating meet all eligibility criteria for enrollment in the future. Assumed enrollment rates were derived based on past experience and are stratified by age with the probability of enrollment diminishing as the members' age increases. This estimated enrollment rate was then applied to the population of members who may meet criteria necessary for eligibility and are not currently enrolled in the MPP Program. Based on this, the estimated number of future enrollments used in the financial reporting valuation was 571 or an average of 0.32 percent of the potentially eligible population (177,763).

The MPP Program is funded on a pay-as-you-go basis with contributions generally being made at the same time and in the same amount as benefit payments and expenses coming due. Any funds within the MPP Program as of June 30, 2017 and 2016, were to manage differences between estimated and actual amounts to be paid and were invested in the Surplus Money Investment Fund, which is a pooled investment program administered by the State Treasurer.

Discount Rate

The discount rate used to measure the total OPEB liability as of June 30, 2017 and 2016 was 3.58 percent and 2.85 percent, respectively. The MPP Program is funded on a pay-as-you-go basis as described in Note 1, and under the pay-as-you-go method, the OPEB Plan's fiduciary net position was not projected to be sufficient to make projected future benefit payments. Therefore, a discount rate of 3.58 percent and 2.85 percent, which is the Bond Buyer 20-Bond GO Index from Bondbuyer.com as of June 30, 2017 and 2016, respectively, was applied to all periods of projected benefit payments to measure the total OPEB liability.

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

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

Discount Rate	Net OPEB Liability
1% decrease (2.58%)	\$ 2,015,263
Current discount rate (3.58%)	1,820,357
1% increase (4.58%)	1,630,771

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Medicare Costs Trend Rates

The following presents the District's proportionate share of the net OPEB liability calculated using the current discount rate, as well as what the net pension liability would be if it were calculated using Medicare costs trend rates that are one percent lower or higher than the current rates:

Medicare Costs Trend Rate	Net OPEB Liability
1% decrease (2.7% Part A and 3.1% Part B)	\$ 1,644,972
Current Medicare costs trend rate (3.7% Part A and 4.1% Part B)	1,820,357
1% increase (4.7% Part A and 5.1% Part B)	1,993,992

Claims Liability

Liabilities associated with workers' compensation claims are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNR). Claim liabilities are based upon estimated ultimate cost of settling the claims, considering recent claim settlement trends including the frequency and amount of payouts and other economic and social factors. The liability for workers' compensation, and health and welfare claims is reported in the Internal Service Fund. The outstanding claims liability at June 30, 2018, amount to \$13,631,775, using a discount factor of 1.5 percent.

NOTE 10 – NON-OBLIGATORY DEBT

Non-obligatory debt relates to debt issuances by the Community Facility Districts, as authorized by the Mello-Roos Community Facilities Act of 1982 as amended, and the Mark-Roos Local Bond Pooling Act of 1985, and are payable from special taxes levied on property within the Community Facilities Districts according to a methodology approved by the voters within the District. Neither the faith and credit nor taxing power of the District is pledged to the payment of the bonds. Reserves have been established from the bond proceeds to meet delinquencies should they occur. If delinquencies occur beyond the amounts held in those reserves, the District has no duty to pay the delinquency out of any available funds of the District. The District acts solely as an agent for those paying taxes levied and the bondholders, and may initiate foreclosure proceedings. Special assessment debt of \$4,180,000 as of June 30, 2018, does not represent debt of the District and, as such, does not appear in the accompanying basic financial statements.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 11 – FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Child Development Fund	Capital Facilities Fund	Non-Major Governmental Funds	Total
Nonspendable					
Revolving cash	\$ 120,000	\$ -	\$ -	\$ -	\$ 120,000
Stores inventories	292,286	-	-	33,510	325,796
Prepaid expenditures	230,014	114,790	-	-	344,804
Total Nonspendable	642,300	114,790	-	33,510	790,600
Restricted					
Legally restricted programs	4,267,812	-	-	547,932	4,815,744
Capital projects	-	-	30,433,727	2,874,259	33,307,986
Debt services	-	-	-	16,640,648	16,640,648
Total Restricted	4,267,812	-	30,433,727	20,062,839	54,764,378
Assigned					
Child development	-	2,963,536	-	-	2,963,536
Capital projects	-	-	-	11,366,915	11,366,915
Site and department carryover	2,312,540	-	-	-	2,312,540
One time funds	13,564,998	-	-	-	13,564,998
Total Assigned	15,877,538	2,963,536	-	11,366,915	30,207,989
Unassigned					
Reserve for economic uncertainties	14,254,575	-	-	-	14,254,575
Remaining unassigned	42,709,372	-	-	-	42,709,372
Total Unassigned	56,963,947	-	-	-	56,963,947
Total	\$ 77,751,597	\$ 3,078,326	\$ 30,433,727	\$ 31,463,264	\$ 142,726,914

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 12 - RISK MANAGEMENT

The District's risk management activities are recorded in the Self-Insurance Fund. The General Fund, through the purchase of commercial insurance, administers employee life and health programs. The District self-insures its exposures for workers' compensation claims up to a \$1 million self-insured retention (SIR), and has obtained excess coverage up to statutory limits through participation in the Alliance of Schools for Cooperative Insurance Programs (ASCIP). The District also participates in ASCIP for property and liability coverage up to \$5 million. Excess property and liability coverage is obtained through the public entity risk pool, Schools Excess Liability Fund (SELF). See Note 15 for additional information relating to public entity risk pools.

For insured programs, there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

Claims Liabilities

The District records an estimated liability for indemnity torts and other claims against the District. Claims liabilities are based on estimates of the ultimate cost of reported claims (including future claim adjustment expenses) and an estimate for claims incurred, but not reported based on historical experience.

Unpaid Claims Liabilities

The fund establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represent the changes in approximate aggregate liabilities for the District from July 1, 2016 to June 30, 2018:

	Health Care	Workers' Compensation	Property and Liability	Total
Liability Balance, July 1, 2016	\$ 2,409,259	\$ 9,245,000	\$ -	\$ 11,654,259
Claims and changes in estimates	20,168,144	7,732,652	1,290,531	29,191,327
Claims payments	(20,811,835)	(4,983,652)	(1,290,531)	(27,086,018)
Liability Balance, July 1, 2017	1,765,568	11,994,000	-	13,759,568
Claims and changes in estimates	19,956,866	1,128,449	638,213	21,723,528
Claims payments	(20,409,659)	(1,128,449)	(313,213)	(21,851,321)
Liability Balance, June 30, 2018	\$ 1,312,775	\$ 11,994,000	\$ 325,000	\$ 13,631,775
Assets available to pay claims at June 30, 2018	\$ 13,036,787	\$ 15,870,401	\$ 636,402	\$ 29,543,590

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS

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

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

Pension Plan	Collective Net Pension Liability	Collective Deferred Outflows of Resources	Collective Deferred Inflows of Resources	Collective Pension Expense
CalSTRS	\$ 221,025,782	\$ 65,998,414	\$ 23,850,041	\$ 20,484,349
CalPERS	69,705,112	21,394,996	1,651,841	12,151,717
Total	<u>\$ 290,730,894</u>	<u>\$ 87,393,410</u>	<u>\$ 25,501,882</u>	<u>\$ 32,636,066</u>

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.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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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 non-employer contributing entity to the STRP.

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

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

	STRP Defined Benefit Program	
	On or before December 31, 2012	On or after January 1, 2013
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 \$17,861,098.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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

At June 30, 2018, the District reported a liability 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	\$ 221,025,782
State's proportionate share of the net pension liability associated with the District	130,756,985
Total	<u>\$ 351,782,767</u>

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 0.2390 percent and 0.2406 percent, resulting in a net decrease in the proportionate share of 0.0016 percent.

For the year ended June 30, 2018, the District recognized pension expense of \$20,484,349. In addition, the District recognized pension expense and revenue of \$13,161,946 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	\$ 17,861,098	\$ -
Net change in proportionate share of net pension liability	6,372,334	14,108,463
Differences between projected and actual earnings on pension plan investments	-	5,886,533
Differences between expected and actual experience in the measurement of the total pension liability	817,375	3,855,045
Changes of assumptions	40,947,607	-
Total	<u>\$ 65,998,414</u>	<u>\$ 23,850,041</u>

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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	\$ (4,893,693)
2020	3,703,081
2021	533,963
2022	(5,229,884)
Total	<u>\$ (5,886,533)</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 seven years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ 4,897,106
2020	4,897,106
2021	4,897,106
2022	4,897,108
2023	3,752,149
Thereafter	6,833,233
Total	<u>\$ 30,173,808</u>

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Actuarial Methods and Assumptions

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

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

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

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

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
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%

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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:

<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% decrease (6.10%)	\$ 324,536,018
Current discount rate (7.10%)	221,025,782
1% increase (8.10%)	137,020,211

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>.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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%

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 \$5,694,284.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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 \$69,705,112. 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 0.2920 percent and 0.3011 percent, resulting in a net decrease in the proportionate share of 0.0091 percent.

For the year ended June 30, 2018, the District recognized pension expense of \$12,151,717. 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	\$ 5,694,284	\$ -
Net change in proportionate share of net pension liability	610,617	831,149
Differences between projected and actual earnings on pension plan investments	2,411,320	-
Differences between expected and actual experience in the measurement of the total pension liability	2,497,247	-
Changes of assumptions	10,181,528	820,692
Total	<u>\$ 21,394,996</u>	<u>\$ 1,651,841</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	\$ (65,338)
2020	2,782,141
2021	1,014,956
2022	(1,320,439)
Total	<u>\$ 2,411,320</u>

SADDLEBACK VALLEY UNIFIED 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, 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	\$ 4,389,022
2020	3,985,220
2021	3,263,309
Total	<u>\$ 11,637,551</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.

SADDLEBACK VALLEY UNIFIED 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:

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

Discount Rate

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

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

Discount Rate	Net Pension Liability
1% decrease (6.15%)	\$ 102,558,557
Current discount rate (7.15%)	69,705,112
1% increase (8.15%)	42,450,429

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Alternative Retirement Program

As established by the Federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) must be covered by Social Security or an alternative plan. The District has elected to use the Public Agency System (PARS) to act as their administrators and U.S. Bank to act as trustee and investment manager for the District's alternative plan. Contributions made by the District and an employee vest immediately. The District contributes 1.3 percent of an employee's gross earnings. An employee is required to contribute 6.2 percent of his or her gross earnings to the pension plan.

During the year, the District's required and actual contributions amounted to \$106,525.

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of \$10,633,342 (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 involved in various litigations arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2018.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Construction Commitments

As of June 30, 2018, the District had the following commitments with respect to the unfinished capital projects:

Capital Projects	Remaining Construction Commitment	Expected Date of Completion
Trabuco Hills High School - Modernization	\$ 478,968	06/30/19
Laguna Hills High School - Career Technical Education	19,948	06/30/19
Portola Hills Elementary School - Modernization	9,385,810	10/30/19
Energy Management System	1,144,382	12/01/18
Magnet Schools	484,517	10/30/18
Trabuco Hills High School - Scoreboard and Sound System	108,149	10/30/18
District Wide Solar Project Phase II	205,945	02/28/19
Laguna Hills High School - Boys Locker Room	1,183	10/30/18
	\$ 11,828,902	

NOTE 15 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS

The District is a member of the Alliance of Schools for Cooperative Insurance Programs (ASCIP) and the Schools Excess Liability Fund (SELF) public entity risk pools. The District pays an annual premium to the applicable entity for its property and liability coverage. The District participates in the Coastline Regional Occupational Program (CROP) for the occupational training for high school students and adults residing within the District boundaries. The relationships between the District and the pools 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 \$2,799,579, \$1,658,779, and \$171,425 to CROP, ASCIP, and SELF, respectively, for regional occupational program, property and liability coverage, and excess liability workers' compensation coverage.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 16 - RESTATEMENT OF PRIOR YEAR NET POSITION AND FUND BALANCES

The District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in the current year.

In addition, there were certain items that occurred in the prior year net position and fund balances that have been restated to more accurately reflect the substance of the underlying transactions. As a result, the effect on the current fiscal year is as follows:

Government-Wide Financial Statements

Net Position - Beginning	\$ 124,259,566
Inclusion of net OPEB liability from the adoption of GASB Statement No. 75	(51,117,444)
Overstatement of accounts receivable	(718,848)
Overstatement of accounts payable	399,036
Transfer expenditures to the Special Reserve Fund for Capital Outlay Projects	34,650
Transfer expenditures from the Building Fund	(34,650)
Net Position - Beginning, as restated	<u>\$ 72,822,310</u>

General Fund

Fund Balance - Beginning	\$ 77,097,987
Overstatement of accounts receivable	(718,848)
Fund Balance - Beginning, as restated	<u>\$ 76,379,139</u>

Building Non-Major Governmental Fund

Fund Balance - Beginning	\$ 2,916,357
Overstatement of accounts payable	399,036
Transfer of expenditures to the Special Reserve Non-Major Government Fund for Capital Outlay Projects	34,650
Fund Balance - Beginning, as restated	<u>\$ 3,350,043</u>

Special Reserve Non-Major Governmental Fund for Capital Outlay Projects

Fund Balance - Beginning	\$ 9,377,600
Transfer of expenditures from the Building Non-Major Governmental Fund	(34,650)
Fund Balance - Beginning, as restated	<u>\$ 9,342,950</u>

REQUIRED SUPPLEMENTARY INFORMATION

SADDLEBACK VALLEY UNIFIED 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
REVENUES				
Local Control Funding Formula	\$ 227,849,594	\$ 228,396,308	\$ 229,767,090	\$ 1,370,782
Federal sources	9,790,397	12,257,825	11,174,936	(1,082,889)
Other State sources	34,058,270	44,129,526	41,319,205	(2,810,321)
Other local sources	3,277,041	4,224,612	4,617,190	392,578
Total Revenues ¹	274,975,302	289,008,271	286,878,421	(2,129,850)
EXPENDITURES				
Current				
Certificated salaries	125,553,332	128,620,330	128,620,329	1
Classified salaries	35,708,777	35,811,336	35,811,335	1
Employee benefits	77,420,569	77,843,566	77,843,564	2
Books and supplies	9,890,203	13,403,958	8,084,337	5,319,621
Services and operating expenditures	26,483,860	25,616,743	25,636,474	(19,731)
Other outgo	5,500,012	4,002,044	6,110,991	(2,108,947)
Capital outlay	77,328	6,110,991	3,398,933	2,712,058
Total Expenditures ¹	280,634,081	291,408,968	285,505,963	5,903,005
Excess (Deficiency) of Revenues Over Expenditures	(5,658,779)	(2,400,697)	1,372,458	3,773,155
Other Financing Uses				
Transfers out	(406,771)	-	-	-
NET CHANGE IN FUND BALANCES	(6,065,550)	(2,400,697)	1,372,458	3,773,155
Fund Balances - Beginning, as Restated	76,379,139	76,379,139	76,379,139	-
Fund Balances - Ending	\$ 70,313,589	\$ 73,978,442	\$ 77,751,597	\$ 3,773,155

¹ Due to the consolidation of Fund 14, Deferred Maintenance Fund, for reporting purposes into the General Fund, additional revenues and expenditures pertaining to this other fund is included in the Actual (GAAP Basis) revenues and expenditures, however is not included in the original and final General Fund budgets.

See accompanying note to required supplementary information.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

**CHILD DEVELOPMENT FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2018**

	Budgeted Amounts		Actual (GAAP Basis)	Variances -
	Original	Final		Positive
				(Negative)
				Final to Actual
REVENUES				
Federal sources	\$ 16,000	\$ 16,000	\$ 15,365	\$ (635)
Other State sources	4,552	4,552	5,249	697
Other local sources	9,573,359	10,435,534	10,427,908	(7,626)
Total Revenues	9,593,911	10,456,086	10,448,522	(7,564)
EXPENDITURES				
Current				
Certificated salaries	40,500	40,500	40,500	-
Classified salaries	5,609,018	5,634,150	5,634,151	(1)
Employee benefits	2,071,571	2,190,671	2,190,670	1
Books and supplies	653,876	616,689	616,686	3
Services and operating expenditures	698,940	723,908	719,400	4,508
Other outgo	454,466	464,574	464,574	-
Capital outlay	-	173,865	167,741	6,124
Total Expenditures	9,528,371	9,844,357	9,833,722	10,635
NET CHANGE IN FUND				
BALANCES	65,540	611,729	614,800	3,071
Fund Balance - Beginning	2,463,526	2,463,526	2,463,526	-
Fund Balance - Ending	\$ 2,529,066	\$ 3,075,255	\$ 3,078,326	\$ 3,071

See accompanying note to required supplementary information.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

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

	<u>2018</u>
Total OPEB Liability	
Service cost	\$ 6,429,251
Interest	2,657,106
Benefit payments	<u>(4,787,166)</u>
Net change in total OPEB liability	4,299,191
Total OPEB liability - beginning	<u>75,184,677</u>
Total OPEB liability - ending (a)	<u><u>\$ 79,483,868</u></u>
Covered payroll	<u>N/A¹</u>
District's total OPEB liability as a percentage of covered payroll	<u>N/A¹</u>

¹ 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.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY – MPP PROGRAM FOR THE YEAR ENDED JUNE 30, 2018

Year ended June 30,	<u>2018</u>
District's proportion of the net OPEB liability	<u>0.4327%</u>
District's proportionate share of the net OPEB liability	<u>\$ 1,820,357</u>
District's covered-employee payroll	<u>N/A¹</u>
District's proportionate share of the net OPEB liability as a percentage of it's covered-employee payroll	<u>N/A¹</u>
Plan fiduciary net position as a percentage of the total OPEB liability	<u>0.01%</u>

¹ As of June 30, 2012, active members are no longer eligible for future enrollment in the MPP Program; therefore, the covered payroll disclosure is not applicable.

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

See accompanying note to required supplementary information.

SADDLEBACK VALLEY UNIFIED 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>
CalSTRS		
District's proportion of the net pension liability	<u>0.2390%</u>	<u>0.2406%</u>
District's proportionate share of the net pension liability	\$ 221,025,782	\$ 194,628,534
State's proportionate share of the net pension liability associated with the District	<u>130,756,985</u>	<u>110,798,553</u>
Total	<u><u>\$ 351,782,767</u></u>	<u><u>\$ 305,427,087</u></u>
District's covered - employee payroll	<u>\$ 124,763,633</u>	<u>\$ 118,292,069</u>
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	<u>177.16%</u>	<u>164.53%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>69%</u>	<u>70%</u>
CalPERS		
District's proportion of the net pension liability	<u>0.2920%</u>	<u>0.3011%</u>
District's proportionate share of the net pension liability	<u>\$ 69,705,112</u>	<u>\$ 59,464,936</u>
District's covered - employee payroll	<u>\$ 37,800,122</u>	<u>\$ 35,585,650</u>
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	<u>184.40%</u>	<u>167.10%</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.

<u>2016</u>	<u>2015</u>
<u>0.2659%</u>	<u>0.2506%</u>
\$ 179,014,809	\$ 146,436,112
<u>94,679,100</u>	<u>88,424,447</u>
<u>\$ 273,693,909</u>	<u>\$ 234,860,559</u>
<u>\$ 121,024,291</u>	<u>\$ 112,077,239</u>
<u>147.92%</u>	<u>130.66%</u>
<u>74%</u>	<u>77%</u>
<u>0.3048%</u>	<u>0.2928%</u>
\$ 44,925,240	\$ 33,241,819
<u>\$ 32,888,913</u>	<u>\$ 30,426,737</u>
<u>136.60%</u>	<u>109.25%</u>
<u>79%</u>	<u>83%</u>

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

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

	<u>2018</u>	<u>2017</u>
CalSTRS		
Contractually required contribution	\$ 17,861,098	\$ 15,695,265
Contributions in relation to the contractually required contribution	<u>(17,861,098)</u>	<u>(15,695,265)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered - employee payroll	<u>\$ 123,777,533</u>	<u>\$ 124,763,633</u>
Contributions as a percentage of covered - employee payroll	<u>14.43%</u>	<u>12.58%</u>
 CalPERS		
Contractually required contribution	\$ 5,694,284	\$ 5,249,681
Contributions in relation to the contractually required contribution	<u>(5,694,284)</u>	<u>(5,249,681)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered - employee payroll	<u>\$ 36,663,988</u>	<u>\$ 37,800,122</u>
Contributions as a percentage of covered - employee payroll	<u>15.531%</u>	<u>13.888%</u>

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

See accompanying note to required supplementary information.

<u>2016</u>	<u>2015</u>
\$ 12,692,739	\$ 10,746,957
<u>(12,692,739)</u>	<u>(10,746,957)</u>
<u>\$ -</u>	<u>\$ -</u>
<u>\$ 118,292,069</u>	<u>\$ 121,024,291</u>
<u>10.73%</u>	<u>8.88%</u>

\$ 4,215,832	\$ 3,871,354
<u>(4,215,832)</u>	<u>(3,871,354)</u>
<u>\$ -</u>	<u>\$ -</u>
<u>\$ 35,585,650</u>	<u>\$ 32,888,913</u>
<u>11.847%</u>	<u>11.771%</u>

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2018

NOTE 1 - PURPOSE OF SCHEDULES

Budgetary Comparison Schedules

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.

These schedules 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 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 change in the benefit terms.

Change of Assumptions – There were no changes in economic assumptions.

Schedule of the District's Proportionate Share of the Net OPEB Liability - MPP Program

This schedule presents information on the District's proportionate share of the net OPEB Liability – MPP Program and the plan's fiduciary net position. In the future, as data becomes available, ten years of information will be presented.

Changes in Benefit Terms – There were no change in the benefit terms since the previous valuation.

Changes of Assumptions – The plan rate of investment return assumption was changed from 2.85 percent to 3.58 percent since the previous valuation.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2018

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

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

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

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

Schedule of District Contributions

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

SUPPLEMENTARY INFORMATION

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

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

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education (CDE):			
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329	\$ 3,231,524
Title I, Part G: Advanced Placement Test Fee Reimbursement Program	84.330B	14831	2,510
Title II, Part A, Supporting Effective Instruction	84.367	14341	224,331
English Language Acquisition State Grants:			
Title III, Immigrant Student Program	84.365	15146	33,243
Title III, English Learner Student Program	84.365	14346	746,804
Total English Language Acquisition State Grants			<u>780,047</u>
Early Intervention Grants, Part C	84.181	23761	30,148
Carl D. Perkins Career and Technical Education: Secondary, Section 131	84.048	14894	157,357
Special Education (IDEA) Cluster:			
Basic Local Assistance Entitlement, Part B, Sec 611	84.027	13379	4,418,655
Preschool Grants, Part B, Sec 619	84.173	13430	137,026
Preschool Local Entitlement, Part B, Sec 611	84.027A	13682	505,171
Preschool Capacity Building, Part B, Sec 619	84.173A	13839	5,705
Mental Health Allocation Plan, Part B, Sec 611	84.027A	15197	311,872
Quality Assurance & Focused Monitoring	84.027A	13693	3,550
Alternate Dispute Resolution, Part B, Sec 611	84.173A	13007	32,422
Passed through Saddleback Valley Unified School District to Laguna Beach Unified School District:			
Basic Local Assistance Entitlement, Part B, Sec 611	84.027	13379	438,490
Preschool Grants, Part B, Sec 619	84.173	13430	13,617
Preschool Local Entitlement, Part B, Sec 611	84.027A	13682	50,201
Mental Health Allocation Plan, Part B, Sec 611	84.027A	15197	30,992
Preschool Staff Development, Part B, Sec 619	84.173A	13431	152
Alternate Dispute Resolution, Part B, Sec 611	84.173A	13007	1,430
Total Special Education (IDEA) Cluster			<u>5,949,283</u>
Passed through California Department of Rehabilitation:			
Rehabilitation Services - Vocational Rehabilitation Grants to States:			
Workability II, Transition Partnership	84.126	10006	476,953
Work Incentive Training	84.126A	10006	28,035
Total Rehabilitation Services - Vocational Rehabilitation Grants to States			<u>504,988</u>
Total U.S. Department of Education			<u>10,880,188</u>

See accompanying note to supplementary information.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

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

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
Passed through CDE:			
Child Nutrition Cluster:			
National School Lunch Program	10.555	13396	\$ 2,781,014
Especially Needy Breakfast Program	10.553	13390	643,128
Commodities	10.555	13389	450,519
Seamless Summer Feeding Option	10.555	13396	8,447
Total Child Nutrition Cluster			<u>3,883,108</u>
Passed through Orange County Department of Education:			
Forest Reserve Funds	10.665	10044	13,349
Total U.S. Department of Agriculture			<u>3,896,457</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Medicaid Cluster:			
Passed through California Department of Health Services:			
Medi-Cal Billing Option	93.778	10013	354,042
Passed through Orange County Department of Education:			
Medi-Cal Administrative Activities	93.778	10060	414,429
Total Medicaid Cluster			<u>768,471</u>
Total U.S. Department of Health and Human Services			<u>768,471</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Community Development Block Grants Entitlement Cluster:			
Community Development Block Grant - Child Care, City of Lake Forest	14.218	[1]	7,581
Community Development Block Grant - Child Care, City of Mission Viejo	14.218	[1]	7,784
Total Community Development Block Grants Entitlement Cluster			<u>15,365</u>
Total U.S. Department of Housing and Urban Development			<u>15,365</u>
Total Expenditures of Federal Awards			<u><u>\$ 15,560,481</u></u>

[1] Direct award.

See accompanying note to supplementary information.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2018

ORGANIZATION

The Saddleback Valley Unified School District was organized in July 1, 1973, and consists of an area comprising approximately 93 square miles. The District operates 23 elementary schools, four intermediate schools, four high schools, one special education school, one independent high school, one continuation high school, and one adult education school.

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Amanda Morrell	President	2020
Susie Swartz	Vice President	2020
Dr. Edward Wong	Clerk	2020
Dolores Winchell	Member	2018
Dennis Walsh	Member	2018

ADMINISTRATION

Crystal Turner, Ed.D.	Superintendent
Connie Cavanaugh, CPA	Assistant Superintendent, Business Services
Laura Ott	Assistant Superintendent, Educational Services
Terry Stanfill, Ed.D.	Assistant Superintendent, Human Resources

See accompanying note to supplementary information.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

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

	Amended Second Period Report	Annual Report
Regular ADA		
Transitional kindergarten through third	6,765.40	6,776.22
Fourth through sixth	5,390.57	5,390.88
Seventh and eighth	4,051.62	4,049.76
Ninth through twelfth	8,999.62	8,955.91
Total Regular ADA	25,207.21	25,172.77
Extended Year Special Education		
Transitional kindergarten through third	13.40	13.40
Fourth through sixth	8.32	8.32
Seventh and eighth	3.69	3.69
Ninth through twelfth	9.69	9.69
Total Extended Year Special Education	35.10	35.10
Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	1.17	1.37
Fourth through sixth	8.92	9.03
Seventh and eighth	2.40	2.68
Ninth through twelfth	14.60	14.73
Total Special Education, Nonpublic, Nonsectarian Schools	27.09	27.81
Extended Year Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	0.07	0.07
Fourth through sixth	1.01	1.01
Seventh and eighth	0.22	0.22
Ninth through twelfth	2.10	2.10
Total Extended Year Special Education, Nonpublic, Nonsectarian Schools	3.40	3.40
Total ADA	25,272.80	25,239.08
 Ralph A. Gates Elementary Charter School		
Regular ADA		
Transitional kindergarten through third	545.48	544.35
Fourth through sixth	449.38	448.72
Total Regular ADA	994.86	993.07
Classroom Based ADA		
Transitional kindergarten through third	545.48	544.35
Fourth through sixth	449.38	448.72
Total Classroom Based ADA	994.86	993.07

See accompanying note to supplementary information.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

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

Grade Level	1986-87 Minutes Requirement	2017-18 Actual Minutes	Number of Days		Status
			Traditional Calendar	Multitrack Calendar	
Kindergarten	36,000	36,000	180	-	Complied
Grades 1 - 3	50,400				
Grade 1		50,400	180	-	Complied
Grade 2		50,400	180	-	Complied
Grade 3		50,400	180	-	Complied
Grades 4 - 6	54,000				
Grade 4		54,000	180	-	Complied
Grade 5		54,000	180	-	Complied
Grade 6		54,000	180	-	Complied
Grades 7 - 8	54,000				
Grade 7		58,820	180	-	Complied
Grade 8		58,820	180	-	Complied
Grades 9 - 12	64,800				
Grade 9		70,692	180	-	Complied
Grade 10		70,692	180	-	Complied
Grade 11		70,692	180	-	Complied
Grade 12		70,692	180	-	Complied

Ralph A. Gates Elementary Charter School

Grade Level	1986-87 Minutes Requirement	2017-18 Actual Minutes	Number of Days		Status
			Traditional Calendar	Multitrack Calendar	
Kindergarten	36,000	36,000	180	-	Complied
Grades 1 - 3	50,400				
Grade 1		50,496	180	-	Complied
Grade 2		50,496	180	-	Complied
Grade 3		50,496	180	-	Complied
Grades 4 - 6	54,000				
Grade 4		54,096	180	-	Complied
Grade 5		54,096	180	-	Complied
Grade 6		54,096	180	-	Complied

See accompanying note to supplementary information.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

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

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

	Building Fund	Special Reserve Fund for Capital Outlay Projects
	<u> </u>	<u> </u>
NET ASSETS		
Balance, June 30, 2018, Unaudited Actuals	\$ 2,800,109	\$ 11,069,543
Increase in:		
Due from other funds	11,138	308,510
Due to other funds	(308,510)	(11,138)
Balance, June 30, 2018, Audited Financial Statement	<u>\$ 2,502,737</u>	<u>\$ 11,366,915</u>

See accompanying note to supplementary information.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

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

	(Budget) 2019 ¹	2018	(as restated) 2017	2016
GENERAL FUND ³				
Revenues	\$ 296,509,502	\$ 286,877,278	\$ 287,254,695	\$ 286,682,761
Expenditures	288,028,874	285,091,506	283,226,405	273,841,975
INCREASE IN FUND BALANCE	\$ 8,480,628	\$ 1,785,772	\$ 4,028,290	\$ 12,840,786
ENDING FUND BALANCE	\$ 86,232,225	\$ 77,751,597	\$ 75,965,825	\$ 71,937,535
AVAILABLE RESERVES ²	\$ 59,167,262	\$ 56,963,947	\$ 63,730,476	\$ 56,785,022
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO	20.54%	19.98%	22.50%	20.74%
LONG-TERM OBLIGATIONS ⁴	N/A	\$ 235,960,449	\$ 242,550,660	\$ 184,887,388
K-12 AVERAGE DAILY ATTENDANCE AT P-2 ⁵	25,842	26,268	26,803	27,631

The General Fund balance has increased by \$5,814,062 over the past two years. The fiscal year 2018-2019 budget projects a further increase of \$8,480,628 (10.9 percent). For a district this size, the State recommends available reserves of at least three percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in all of the past three years and anticipates incurring an operating surplus during the 2018-2019 fiscal year. Total long-term obligations have increased by \$51,073,061 over the past two years.

Average daily attendance has decreased by 1,363 over the past two years. An additional decline of 426 ADA is anticipated during fiscal year 2018-2019.

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

² Available reserves consist of all unassigned fund balances including all amounts reserved for economic uncertainties contained within the General Fund.

³ General Fund amounts do not include activity related to the consolidation of Fund 14 the Deferred Maintenance Fund as required by GASB Statement No. 54.

⁴ Long-term obligations have been restated as of June 30, 2017 due to the implementation of GASB Statement No. 75.

⁵ ADA includes the average daily attendance for Ralph Gates Charter School.

See accompanying note to supplementary information.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

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

<u>Name of Charter School</u>	<u>Included in Audit Report</u>
Ralph A. Gates Elementary Charter School (0157)	Yes

See accompanying note to supplementary information.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

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

	Special Education Pass-Through Fund	Adult Education Fund	Cafeteria Fund	Building Fund	County School Facilities Fund
ASSETS					
Deposits and investments	\$ -	\$ 512	\$ 905,358	\$ 3,211,293	\$ 241,637
Receivables	-	241,181	200,019	4,388	329
Due from other funds	931,559	43,958	59,770	13,206	-
Stores inventories	-	-	33,510	-	-
Total Assets	\$ 931,559	\$ 285,651	\$ 1,198,657	\$ 3,228,887	\$ 241,966
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 931,559	\$ 19,923	\$ 350,743	\$ 416,479	\$ 12
Due to other funds	-	79,885	308,662	309,671	-
Unearned revenue	-	-	143,653	-	-
Total Liabilities	931,559	99,808	803,058	726,150	12
Fund Balances:					
Nonspendable	-	-	33,510	-	-
Restricted	-	185,843	362,089	2,502,737	241,954
Assigned	-	-	-	-	-
Total Fund Balances	-	185,843	395,599	2,502,737	241,954
Total Liabilities and Fund Balances	\$ 931,559	\$ 285,651	\$ 1,198,657	\$ 3,228,887	\$ 241,966

See accompanying note to supplementary information.

Special Reserve Fund for Capital Outlay Projects	Capital Projects Fund for Blended Component Units	Bond Interest and Redemption Fund	Debt Service Fund for Blended Component Units	Total Non-Major Governmental Funds
\$ 11,498,297	\$ 157,945	\$ 8,368,381	\$ 3,468,910	\$ 27,852,333
15,478	-	18,038	4,785,319	5,264,752
308,510	-	-	-	1,357,003
-	-	-	-	33,510
<u>\$ 11,822,285</u>	<u>\$ 157,945</u>	<u>\$ 8,386,419</u>	<u>\$ 8,254,229</u>	<u>\$ 34,507,598</u>
\$ 444,232	\$ 28,377	\$ -	\$ -	\$ 2,191,325
11,138	-	-	-	709,356
-	-	-	-	143,653
<u>455,370</u>	<u>28,377</u>	<u>-</u>	<u>-</u>	<u>3,044,334</u>
-	-	-	-	33,510
-	129,568	8,386,419	8,254,229	20,062,839
11,366,915	-	-	-	11,366,915
<u>11,366,915</u>	<u>129,568</u>	<u>8,386,419</u>	<u>8,254,229</u>	<u>31,463,264</u>
<u>\$ 11,822,285</u>	<u>\$ 157,945</u>	<u>\$ 8,386,419</u>	<u>\$ 8,254,229</u>	<u>\$ 34,507,598</u>

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

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

	Special Education Pass-Through Fund	Adult Education Fund	Cafeteria Fund	Building Fund	County School Facilities Fund
REVENUES					
Federal sources	\$ 534,882	\$ -	\$ 3,883,108	\$ -	\$ -
Other State sources	1,693,869	247,933	254,182	-	-
Other local sources	-	18,448	2,070,831	33,789	1,841
Total Revenues	<u>2,228,751</u>	<u>266,381</u>	<u>6,208,121</u>	<u>33,789</u>	<u>1,841</u>
EXPENDITURES					
Current					
Instruction	-	275,542	-	-	-
Instruction-related activities:					
School site administration	-	190,894	-	-	-
Pupil services:					
Food services	-	-	5,893,730	-	-
All other pupil services	-	84,742	-	-	-
Administration:					
All other administration	-	-	265,918	-	-
Plant services	-	27,252	160	-	-
Other outgo	2,228,751	-	-	-	-
Facility acquisition and construction	-	426,412	-	881,095	(76,997)
Debt service					
Principal	-	-	-	-	-
Interest and other	-	-	-	-	134
Total Expenditures	<u>2,228,751</u>	<u>1,004,842</u>	<u>6,159,808</u>	<u>881,095</u>	<u>(76,863)</u>
NET CHANGE IN FUND BALANCES	-	(738,461)	48,313	(847,306)	78,704
Fund Balances - Beginning, as Restated	-	924,304	347,286	3,350,043	163,250
Fund Balances - Ending	<u>\$ -</u>	<u>\$ 185,843</u>	<u>\$ 395,599</u>	<u>\$ 2,502,737</u>	<u>\$ 241,954</u>

See accompanying note to supplementary information.

Special Reserve Fund for Capital Outlay Projects	Capital Projects Fund for Blended Component Units	Bond Interest and Redemption Fund	Debt Service Fund for Blended Component Units	Total Non-Major Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 4,417,990
-	-	68,686	-	2,264,670
2,420,948	25,416	9,802,170	207,495	14,580,938
2,420,948	25,416	9,870,856	207,495	21,263,598
-	-	-	-	275,542
-	-	-	-	190,894
-	-	-	-	5,893,730
-	-	-	-	84,742
-	-	-	-	265,918
6,279	-	-	-	33,691
-	-	-	827,782	3,056,533
390,704	68,180	-	-	1,689,394
-	-	5,220,000	4,375,000	9,595,000
-	-	5,050,625	191,590	5,242,349
396,983	68,180	10,270,625	5,394,372	26,327,793
2,023,965	(42,764)	(399,769)	(5,186,877)	(5,064,195)
9,342,950	172,332	8,786,188	13,441,106	36,527,459
\$ 11,366,915	\$ 129,568	\$ 8,386,419	\$ 8,254,229	\$ 31,463,264

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2018

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

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

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts consist of Medi-Cal Billing Option funds and Work Incentive Training that have been recorded in the current period as revenues that have not been expended as of June 30, 2018. These unspent balances are reported as legally restricted balances in the General Fund.

	CFDA Number	Amount
Total Federal Revenues reported from the Statement of Revenues, Expenditures, and Changes in Fund Balances:		\$ 15,608,291
Medi-Cal Billing Option	93.778	(47,709)
Work Incentive Training	84.126A	(101)
Total Schedule of Expenditures of Federal Awards		<u>\$ 15,560,481</u>

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.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2018

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 1986-87 requirements, as required by *Education Code* Section 46201.

Reconciliation of Annual Financial and Budget Report With Audited Financial Statements

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

Schedule of Financial Trends and Analysis

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

Schedule of Charter Schools

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

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

The Non-Major Governmental Funds Combining Balance Sheet and Combining Statement of Revenues, Expenditures, and Changes in Fund Balances 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 Balances.

INDEPENDENT AUDITOR'S REPORTS



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

Governing Board
Saddleback Valley Unified School District
Mission Viejo, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Saddleback Valley Unified 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 Saddleback Valley Unified School District's basic financial statements, and have issued our report thereon dated December 17, 2018.

Emphasis of Matter – Correction of Error

As discussed in Note 16 to the financial statements, there were certain items that occurred in the prior year net position and fund balances that have been restated as of June 30, 2017, to more accurately reflect the substance of the underlying transactions. Our opinion is not modified with respect to this matter.

Emphasis of Matter - Change in Accounting Principles

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

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of Saddleback Valley Unified School District in a separate letter dated December 17, 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.

VAUZNER, TRINE, RY + CO. LLP

Rancho Cucamonga, California
December 17, 2018



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

Governing Board
Saddleback Valley Unified School District
Mission Viejo, California

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

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

VAUZNER, TRINE, RAY & CO. LLP

Rancho Cucamonga, California
December 17, 2018



INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
Saddleback Valley Unified School District
Mission Viejo, California

Report on State Compliance

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

Management's Responsibility

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

Auditor's Responsibility

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

Unmodified Opinion

In our opinion, Saddleback Valley Unified 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.

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

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

CHARTER SCHOOLS

Attendance	Yes
Mode of Instruction	Yes
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	Yes
Charter School Facility Grant Program	No, see below

We did not perform related procedure for the Independent Study because the ADA for the program was below the materiality threshold for testing.

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

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

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

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

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

The District does not have an After/Before School Education and Safety Program; therefore, we did not perform any procedures related to the After/Before School Education and Safety Program.

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

The District does not have Non Classroom-Based Instruction/Independent Study for Charter Schools Program; therefore, we did not perform procedures related to the Non Classroom-Based Instruction/Independent Study for Charter Schools Program and the Determination of Funding for Non Classroom-Based Instruction.

The District does not have a Charter School Facility Grant Program; therefore, we did not perform procedures related to the Charter School Facility Grant Program.

VAUGHN, TRINE, MAY + CO. LLP

Rancho Cucamonga, California
December 17, 2018

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

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

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>
<u>84.365</u>	<u>English Language Acquisition State Grants</u>
<u>10.553 and 10.555</u>	<u>Child Nutrition Cluster</u>
<u>93.778</u>	<u>Medicaid Cluster</u>

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

STATE AWARDS

Type of auditor's report issued on compliance for State programs:	<u>Unmodified</u>
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SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

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

None reported.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

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

None reported.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

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

None reported.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

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

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

2017-001 Code 50000

Federal Program Affected

Program Name: Title I, Part A, Basic Grants – Low Income and Neglected
CFDA Number: 84.010
Pass-Through Entity: California Department of Education
Federal Agency: U.S. Department of Education

Criteria or Specific Requirements

Section 1120A(c) of the Elementary & Secondary Education Act (ESEA) states that a District may receive Title I, Part A funds only if it uses State and local funds to provide services in Title I schools that, taken as a whole, are at least comparable to the services provided in schools that are not receiving Title I funds.

Condition

Adequate documentation was not maintained by the District to demonstrate compliance with the comparability requirements of Title I, Part A. Additionally, it was determined that the District's comparability calculation was submitted to the California Department of Education (CDE) after the CDE submission deadline.

Questioned Costs

There were no questioned costs identified.

Context

The condition was identified as a result of review of the District's comparability calculation and supporting documents.

Effect

The District is not in compliance with comparability requirements under Section 1120A(c) of the ESEA. Due to this noncompliance, the District could be subject to reduced funding under Title I, Part A in subsequent years.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

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

Cause

The condition identified appears to have materialized due to District personnel not maintaining adequate documentation to support information used in the comparability determination. Additionally, it appears the personnel responsible for submitting the comparability determination were not aware of the submission deadline.

Recommendation

It is recommended that the District maintain adequate documentation to support information used in the comparability determination. Additionally, District personnel should be aware of and adhere to State report submission requirements.

Current Status

Implemented.



Governing Board
Saddleback Valley Unified School District
Mission Viejo, California

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

However, during our audit we noted matters that are opportunities for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated December 17, 2018, on the government-wide financial statements of the District.

ASSOCIATED STUDENT BODY (ASB) FUNDS

Los Alisos Intermediate School

Observations

During our testing of ASB funds, we noted the following exceptions:

1. Cash collected by teachers, advisors, clubs, snack bar, or student store is not accounted for properly. Cash collections are not supported by sub-receipts or logs that agree the total to the cash count sheet. 34 of 42 receipts tested did not have sufficient support or a paper trail; therefore the auditor was unable to confirm if these deposits were intact and deposited in a timely manner.
2. Based on the review of the disbursement procedures, it was noted that ten disbursements tested were not approved prior to transactions taking place. This could potentially lead to spending in excess of available funds. Additionally, expenditures of a questionable nature could arise if disbursements are not pre-approved.
3. Based on the review of the disbursement procedures, it was noted that three of ten disbursements were made without explicit receiving documentation for goods being ordered.
4. Based on the review of the fundraising procedures, it was noted that two fund-raising event tested were not preapproved by the ASB and/or the site administration.
5. Revenue potential forms are not being used to document and control fund-raising activities as they occur. These forms supply an element of internal controls without which it is difficult to determine the success of a fundraiser and to track money as it is spent and received.
6. A master ticket log is not being used by the sites to account for all tickets on hand and used during the year.
7. A ticket sales recap form is not prepared and submitted with the remaining ticket roll and cash collections to the bookkeeper.

Recommendations

1. Pre-numbered triplicate receipts or logs should be utilized when collecting money for all ASB events and transactions. If utilizing a log, the students name and amount being turned in should be documented. If using a receipt book, the receipts should be issued in sequential order to all individuals turning in monies for ASB events. Teachers and administrators who collect monies should be equipped with a triplicate receipts book or log sheet. The white copy of the receipt should be issued to the person turning in the monies, the yellow receipt or log sheet should be utilized for deposit back-up, and the pink copy should be retained in the receipt book for audit purposes. When teachers are turning in monies for deposit, a cash count sheet should be turned in with the yellow copy of the receipts and monies to clearly identify the total amount being turned in.
2. In order to ensure proper internal controls over the ASB disbursements, the site should ensure that all disbursement transactions are pre-approved by authorized administrative personnel and the student council. This would allow the reviewing administrator and/or the student council to determine if the proposed activities are appropriate and to determine if sufficient funding is available to finance the activities or the purchases.
3. All goods being ordered should be documented with explicit receiving documentation. Documentation should indicate the date that the goods have been received and documentation regarding whether or not the goods have been received intact, undamaged, and in the correct quantities. Payments for vendor invoices should only be made once the receiving documentation is available.
4. Review and approving the fundraising events is an important control activity to prevent any potential unacceptable ASB activity. All fundraising events should be approved by either the ASB student council or site administrator(s) prior to the event taking place to ensure that the activities related to fundraisers are appropriate in a school setting.
5. The revenue potential form is a vital internal control tool; it should be used to document revenues, expenditures, potential revenue, and actual revenue. This allows an analysis of the fundraiser to be conducted, indicating to the staff the success, or failure of the completed project. The revenue potential also indicates weak control areas in the fund-raising procedures at the site, including lost or stolen merchandise, problems with collecting all moneys due and so forth.
6. A master ticket log should be maintained which notes the type of ticket, color, and current beginning ticket number in the role. The tickets should be safeguarded as if they were cash because stolen tickets would equate to lost revenue for the site because these tickets could be presented for admission rather than an individual paying for admission. When ticket rolls are issued, they should be logged out noting the beginning ticket number in the roll and to whom the roll was issued. When the ticket sales recap form is returned, the form should be reconciled to the log.
7. A ticket sales recap form serves the purpose of calculating, based on the number of tickets sold out of the roll and the price per ticket, the amount of cash that should have been collected. The recap should be reconciled to the cash deposit forwarded to the bookkeeper. This procedure documents overages and shortages of cash and informs site personnel about potential problems in cash collections. The forms should be filed along with the deposit form and other pertinent documents.

Laguna Hills High School

Observations

During our testing of ASB funds, we noted the following exceptions:

1. Cash collected by teachers, advisors, clubs, snack bar, or student store is not accounted for properly. Cash collections are not supported by sub-receipts or logs that agree the total to the cash count sheet. 16 of 66 receipts tested did not have sufficient support or a paper trail; therefore the auditor was unable to confirm if these deposits were intact and deposited in a timely manner.
2. The deposits cash count, when submitted to the bookkeeper by advisors/teachers, are not conducted by two individuals simultaneously, and without any video monitoring devices. Not having a second person present or a video monitoring system creates an opportunity for cash to be misappropriated.
3. Open Purchase Order are being liberally used for ASB disbursements. Many of the Purchase Orders were created at the beginning of the year for a flat amount and covered general purchases. These Purchase Orders did not identify specific vendors that the ASB would engage in business transactions with. The use of such purchase orders prevents the ASB from identifying deficit spending and prevents the ASB from engaging in the proper pre-approval of transactions.
4. Based on the review of the disbursement procedures, it was noted that three of 25 disbursements were made without explicit receiving documentation for goods being ordered.
5. Revenue potential forms are not being used to document and control fund-raising activities as they occur. These forms supply an element of internal controls without which it is difficult to determine the success of a fundraiser and to track money as it is spent and received

Recommendations

1. Pre-numbered triplicate receipts or logs should be utilized when collecting money for all ASB events and transactions. If utilizing a log, the students name and amount being turned in should be documented. If using a receipt book, the receipts should be issued in sequential order to all individuals turning in monies for ASB events. Teachers and administrators who collect monies should be equipped with a triplicate receipts book or log sheet. The white copy of the receipt should be issued to the person turning in the monies, the yellow receipt or log sheet should be utilized for deposit back-up, and the pink copy should be retained in the receipt book for audit purposes. When teachers are turning in monies for deposit, a cash count sheet should be turned in with the yellow copy of the receipts and monies to clearly identify the total amount being turned in.
2. It is recommended that the ASB revise their deposit count procedures to have two people perform the count together and both sign-off on the cash count sheet or that a video monitoring system be utilized that is monitored frequently to deter misappropriation of cash.

3. The ASB should minimize the use of open purchase orders with high authorization amounts. The ASB should also be cognizant of its operating budget when creating these open purchase orders in order to prevent any instances of deficit spending. Furthermore, all purchase orders created and approved by the ASB should identify specific vendors that the ASB would engage in business transactions with. This would allow the ASB to facilitate the pre-approval of disbursement transactions.
4. All goods being ordered should be documented with explicit receiving documentation. Documentation should indicate the date that the goods have been received and documentation regarding whether or not the goods have been received intact, undamaged, and in the correct quantities. Payments for vendor invoices should only be made once the receiving documentation is available.
5. The revenue potential form is a vital internal control tool; it should be used to document revenues, expenditures, potential revenue, and actual revenue. This allows an analysis of the fundraiser to be conducted, indicating to the staff the success, or failure of the completed project. The revenue potential also indicates weak control areas in the fund-raising procedures at the site, including lost or stolen merchandise, problems with collecting all moneys due and so forth.

Silverado High School

Observations

During our testing of ASB funds, we noted the following exceptions:

1. Cash receipts are not deposited in their entirety. A portion of the revenue is withheld to serve as a change fund. In addition, receipts are not issued for checks turned into the ASB.
2. Based on the review of the cash receipting procedures, it was noted that three of 12 deposits tested were not deposited in a timely manner. The delay in deposit ranged from approximately 10 to 17 days from the date of receipt. This could result in large cash balances being maintained at the sites which can hinder the safeguarding of ASB assets.
3. Based on the review of the disbursement procedures, it was noted that three of four disbursements tested were not approved prior to transactions taking place. This could potentially lead to spending in excess of available funds. Additionally, expenditures of a questionable nature could arise if disbursements are not pre-approved.

Recommendations

1. All funds collected should be deposited in its entirety. Should the ASB have a need for a change fund, one should be established with the approval of the District Office. Receipts should be issued for checks to ensure that controls are in place and operating effectively. Pre-numbered triplicate receipts or logs should be utilized when collecting money for all ASB events and transactions. If utilizing a log, the students name and amount being turned in should be documented. If using a receipt book, the receipts should be issued in sequential order to all individuals turning in monies for ASB events.

Governing Board
Saddleback Valley Unified School District

2. The ASB should, at a minimum, make their deposits once a week to minimize the amount of cash held at the sites. During weeks of high cash activity, there may be a need to make more than one deposit. The District should communicate specific guidelines for this procedure including the maximum cash on hand that should be maintained at the site.
3. In order to ensure proper internal controls over the ASB disbursements, the site should ensure that all disbursement transactions are pre-approved by authorized administrative personnel and the student council. This would allow the reviewing administrator and/or the student council to determine if the proposed activities are appropriate and to determine if sufficient funding is available to finance the activities or the purchases.

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

VAUGHN, TRINE, RAY + CO. LLP

Rancho Cucamonga, California
December 17, 2018