SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT
COUNTY OF LOS ANGELES
SANTA MONICA, CALIFORNIA

AUDIT REPORT
June 30, 2018

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

Governing Board
Santa Monica-Malibu Unified School District
Santa Monica, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, the discretely presented component unit, and the aggregate remaining fund information of the Santa Monica-Malibu Unified School District ("the District") as of and for the fiscal 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 did not audit the financial statements of the Santa Monica-Malibu Education Foundation, which represent the discretely presented component unit. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it related to the amounts included for the Santa Monica-Malibu Education Foundation, is based solely on the report of the other auditors. 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 California K-12 Local Educational Agencies and State Compliance Reporting* prescribed by Title 5, *California Code of Regulations, Section 19810*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

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

Emphasis of Matters

Change of accounting principle

As discussed in Note 1 to the basic financial statement, effective July 1, 2017, the District adopted the provisions of Governmental Accounting Standards Board (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 4 through 11, the Budgetary Comparison Schedule – General Fund on page 65, the Schedule of Changes in Net OPEB Liability and the Related Ratios on page 66, the Schedule of the District's Proportionate Share of the Net OPEB Liability and Related Ratios on page 67, the Schedule of OPEB Contributions on page 68 and 69, the Schedules of Proportionate Share of Net Pension Liability on pages 70 and 71, and the Schedules of Pension Contributions on pages 72 and 73 , 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 performed for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The accompanying supplementary information listed in the table of contents are presented for purposes of additional analysis and are not required parts of the basic financial statements of the District. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2, U.S. Code of Federal Regulator (CFR) Part 200, Uniform Administrative Requirement, Cost Principles, and Audit Requirements of Federal Awards, and is also not a required part of the basic financial statements of the District.

The supplementary information, as listed in the table of contents, and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the 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 8, 2017, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Moss, Levy & Hartzheim, LLP
Culver City, California
December 8, 2018

INTRODUCTION

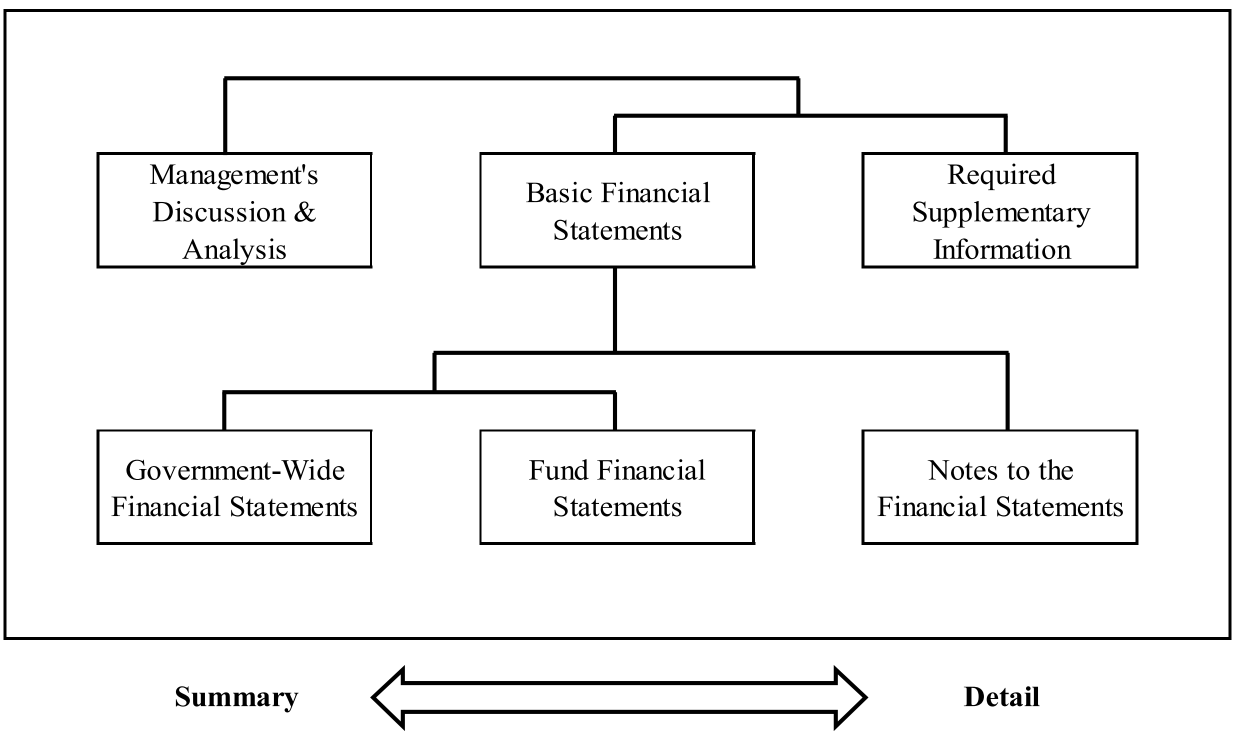
Our discussion and analysis of Santa Monica-Malibu Unified School District's (District) financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2018. It should be read in conjunction with the District's financial statements, which follow this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

FINANCIAL HIGHLIGHTS

- Total net position for the primary government was $52,914,795 at June 30, 2018. This was an increase of $31,672,698 from the prior fiscal year's net position.
- Overall revenues for the primary government were $239,612,390 which exceeded expenses of $207,939,692.

OVERVIEW OF FINANCIAL STATEMENTS

Components of the Financial Section



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

- **Government-wide financial statements**, which comprise the first two statements, provide both short-term and long-term information about the entity's overall financial position.

- **Fund financial statements** focus on reporting the individual parts of District operations in more detail. The fund financial statements comprise the remaining statements.

    - **Governmental Funds** provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

    - **Proprietary Funds** report services for which the District charges customers a fee. Like the government-wide statements, they provide both long- and short-term financial information.

    - **Fiduciary Funds** report balances for which the District is a custodian or *trustee* of the funds, such as Associated Student Bodies and pension funds.

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

Government-Wide Statements

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

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

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

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE

Net Position

The District's net position was $52,914,795 at June 30, 2018, as reflected in Table A-1 below. Of this amount, ($124,509,448) 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.

Table A-1
Santa Monica-Malibu Unified School District's Net Position

	Governmental Activities		
	2018	**2017**	**Net Change**
ASSETS			
Current and other assets	$ 192,832,943	$ 235,824,069	$ (42,991,126)
Capital assets	465,573,277	411,223,575	54,349,702
Total Assets	658,406,220	647,047,644	11,358,576
DEFERRED OUTFLOWS OF RESOURCES	78,994,130	55,548,708	23,445,422
LIABILITIES			
Current liabilities	66,164,963	64,758,267	1,406,696
Long-term liabilities	608,194,965	585,814,746	22,380,219
Total Liabilities	674,359,928	650,573,013	23,786,915
DEFERRED INFLOWS OF RESOURCES	10,125,627	9,056,157	1,069,470
NET POSITION			
Net investment in capital assets	115,880,806	96,504,983	19,375,823
Restricted	61,543,437	52,952,431	8,591,006
Unrestricted	(124,509,448)	(106,490,232)	(18,019,216)
Total Net Position	$ 52,914,795	$ 42,967,182	$ 9,947,613

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE (continued)

Changes in Net Position

The results of this fiscal year's operations for the District as a whole are reported in the Statement of Activities. Table A-2 takes the information from the Statement and rearranges them slightly, so you can see our total revenues, expenses, and special items for the fiscal year.

Table A-2
Santa Monica-Malibu Unified School District's Changes in Net Position

	Governmental Activities		
	2018	**2017**	**Net Change**
REVENUES			
Program revenues			
Charges for services	$ 7,087,558	$ 7,017,115	$ 70,443
Operating grants and contributions	28,769,686	33,789,799	(5,020,113)
Capital grants and contributions	0	2,445,054	(2,445,054)
General revenues			
Property taxes	155,462,262	134,845,254	20,617,008
Unrestricted federal and state aid	14,444,664	15,246,594	(801,930)
Other	33,848,220	19,941,011	13,907,209
Total Revenues	239,612,390	213,284,827	26,327,563
EXPENSES			
Instruction	103,805,316	103,008,781	796,535
Instruction-related services	20,250,931	19,226,107	1,024,824
Pupil services	17,830,772	18,286,810	(456,038)
General administration	10,186,877	9,831,300	355,577
Plant services	20,628,834	20,937,812	(308,978)
Ancillary and community services	3,249,298	2,880,909	368,389
Debt service	19,081,800	18,203,224	878,576
Other Outgo	12,905,864	11,256,367	1,649,497
Total Expenses	207,939,692	203,631,310	4,308,382
Change in net position	31,672,698	9,653,517	22,019,181
Net Position - Beginning	42,967,182	33,313,665	9,653,517
Restatements	(21,725,085)	0	(21,725,085)
Net Position - Ending	$ 52,914,795	$ 42,967,182	$ 9,947,613

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE (continued)

Changes in Net Position (continued)

The total cost of all our governmental activities this fiscal year was $207,939,692 (refer to Table A-2). The amount that our taxpayers ultimately financed for these activities through taxes was $155,462,262. The remaining cost was paid by other governments and organizations who subsidized certain programs with grants and contributions of $35,857,244.

Table A-3
Santa Monica-Malibu Unified School District's Cost of Services

	Net Cost of Services	
	2018	2017
Instruction	$ 89,289,157	$ 82,909,127
Instruction-related services	17,538,573	16,413,228
Pupil services	12,857,889	13,033,917
General administration	9,597,870	9,175,881
Plant services	11,720,203	13,640,180
Ancillary and community services	3,062,023	2,585,384
Debt service	19,081,800	18,203,224
Other outgo and depreciation	8,934,933	4,418,401
Total Expenses	$ 172,082,448	$ 160,379,342

FINANCIAL ANALYSIS OF THE DISTRICT'S MAJOR FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed this fiscal year, its governmental funds reported a combined fund balance of $161,677,647, which is less than last fiscal year's ending fund balance of $203,203,386. The District's General Fund had $9,177,729 more in operating revenues than expenditures for the fiscal year ended June 30, 2018. This increase was mainly attributed to unspent allocation across the budget. This amount includes $390,830 returned from Child Development Services (Fund 12), $759,102 of unspent special education local general fund contribution, lower than anticipated utility costs of $207,207, higher property tax of $1,004,766 from the local control funding formula, and higher Measure GSH & Y revenue of $384,494. The District's Building Fund had $59,143,667 less in operating revenues than expenditures due to a significant increase in expenditures towards facilities construction during the fiscal year ended June 30, 2018. Also for the fiscal year ended June 30, 2018, the District's Bond Interest & Redemption Fund had $2,080,455 more in operating revenues than expenditures.

CURRENT YEAR BUDGET 2017-18

During the fiscal year, budget revisions and appropriation transfers are presented to the Board for their approval on a quarterly basis to reflect changes to both revenues and expenditures that become known during the fiscal year. In addition, the Board of Education approves financial projections included with the Adopted Budget, First Interim, and Second Interim financial reports. The Unaudited Actuals reflect the District's financial projections and current budget based on State and local financial information. For the General Fund, the final budget differs from the original budget mainly with regard to revenues from state apportionments. Updated information for local control funding formula sources from revised local property tax data and minimum state aid resulted in an increase in revenues on the final budget for the General Fund; therefore, the District closed the fiscal year as a Basic Aid District.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of fiscal year 2017-18 the District had invested $465,573,277 in capital assets, net of accumulated depreciation. Completion of certain construction projects resulted in a transfer of construction in progress of roughly $57,451,266 to capitalized assets. Additionally, other construction projects commenced or continued adding slightly under $60 million to construction in progress. A total of $12 million in depreciation expense was recorded in fiscal year 2017-18 within the government-wide statement of activities.

Table A-4
Santa Monica-Malibu Unified School District's Capital Assets

	Governmental Activities		
	2018	**2017**	**Net Change**
CAPITAL ASSETS			
Land	$ 15,122,223	$ 10,128,802	$ 4,993,421
Construction in progress	212,965,702	210,679,359	2,286,343
Land improvements	17,591,763	17,352,600	239,163
Buildings & improvements	332,503,211	275,064,503	57,438,708
Furniture & equipment	26,950,769	25,733,080	1,217,689
Accumulated depreciation	(139,560,391)	(127,734,769)	(11,825,622)
Total Capital Assets, Net	$ 465,573,277	$ 411,223,575	$ 54,349,702

CAPITAL ASSET AND DEBT ADMINISTRATION (continued)

Long-Term Liabilities

At fiscal year-end 17-18, the District had $ 638,341,301 in long-term liabilities including current portion, an increase of 4 percent from last year — as shown in Table A-5. During 2017-18 the District did not issue any general obligation bonds. (More detailed information about the District's long-term liabilities is presented in footnotes to the financial statements.)

Table A-5
Santa Monica-Malibu Unified School District's Long-Term Liabilities

	Governmental Activities		
	2018	**2017**	**Net Change**
LONG-TERM LIABILITIES			
Total general obligation bonds	$ 413,515,171	$ 437,586,310	$ (24,071,139)
Total certificates of participation	12,659,860	13,872,124	(1,212,264)
Capital leases	28,125	79,635	(51,510)
Compensated absences	889,275	1,005,284	(116,009)
Net OPEB obligation	38,066,329	15,140,355	22,925,974
Net pension liability	173,182,541	146,146,001	27,036,540
Less: current portion of long-term debt	(30,146,336)	(28,014,963)	(2,131,373)
Total Long-term Liabilities	$ 608,194,965	$ 585,814,746	$ 22,380,219

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

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

Landmark legislation passed in Year 2013 reformed California school district finance by creating the Local Control Funding Formula (LCFF). The District continues to analyze the impact of the LCFF on funding for our program offerings and services. The LCFF is designed to provide a flexible funding mechanism that links student achievement to state funding levels. The LCFF provides a per pupil base grant amount, by grade span, that is augmented by supplemental funding for targeted student groups in low income brackets, those that are English language learners and foster youth. The State anticipates all school districts to reach the statewide targeted base funding levels by fiscal year 2018-19 but the annual amount funded to meet the target is uncertain.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES (continued)

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

The State's economy has outpaced U.S. growth since the end of the recession, but the outlook is for slower growth ahead. Personal income is expected to grow 2.5% in 2018, 3.6% in 2019, and 2.9% in 2020; according to the UCLA Anderson Economic Forecast, June 2018. The Legislative Analyst's Office (LAO) estimates significant increases to Proposition 98 minimum guarantees in both 2017-18 and 2018-19.

The District is a Basic Aid district in fiscal year 2017-18 and receives revenue in excess of the LCFF entitlement. The District benefits as a Basic Aid district when funded above its computed revenue (LCFF) along with the fast growth in property taxes yielding a large increase in revenues. However, it is difficult to accurately project property tax growth, making long-term forecasts unreliable. The District does not receive additional funding when enrollment increases (or is higher than estimated.) The District should review its "Inter-district: transfer policy" and keep higher reserves.

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

All of these factors were considered in preparing the District's budget for the 2018-19 fiscal year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact the District's Business Office at (310) 450-8338 or by mail at 1651 16th Street, Santa Monica, California 90404.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

STATEMENT OF NET POSITION
June 30, 2018

	Primary Government	June 30, 2017
	Governmental Activities	Discretely Presented Component Unit
Assets		
Cash and investments	$ 181,094,523	$ 10,294,247
Accounts receivable	8,456,827	195,469
Inventories, at cost	38,974	-
Prepaid expenses	240,292	21,348
Other current assets	3,002,327	-
Non depreciable:		
Land	15,122,223	-
Construction in progress	212,965,702	-
Depreciable:		
Land improvements	17,591,763	-
Buildings and improvements	332,503,211	-
Equipment	26,950,769	65,434
Less accumulated depreciation	(139,560,391)	(45,461)
Total assets	658,406,220	10,531,037
Deferred Outflow of Resources		
Deferred outflows related to net pension liability	61,220,334	-
Deferred outflows related to OPEB	55,171	-
Deferred amount on debt refunding	17,718,625	-
Total Deferred Outflows of Resources	78,994,130	-
Liabilities		
Accrued liabilities	29,542,790	2,017,016
Interest payable	4,863,331	-
Unearned revenue	1,612,506	-
Long-term liabilities:		
Due within one year	30,146,336	-
Due in more than a year	608,194,965	-
Total liabilities	674,359,928	2,017,016
Deferred Inflow of Resources		
Deferred inflows related to net pension liability	10,108,899	-
Deferred inflows related to OPEB	16,728	-
Total Deferred Inflows of Resources	10,125,627	-
Net Position		
Net investment in capital assets	115,880,806	19,973
Restricted for:		
Education programs	4,358,701	6,748,693
Debt service	37,871,248	-
Child nutrition program	377,344	-
Capital projects	18,936,144	-
Permanent endowment	-	770,914
Unrestricted	(124,509,448)	974,441
Total net position	$ 52,914,795	$ 8,514,021

See notes to basic financial statements

STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2018

		Program Revenues			Net (Expense) Revenue and Changes in Net Position	June 30, 2017
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Discretely Presented Component Unit
Governmental Activities:						
Instruction	$ 103,805,316	$ 1,344,053	$ 13,172,106	$ -	$ (89,289,157)	$ -
Instruction-related services:						
Supervision of instruction	7,380,992	134,237	1,193,321	-	(6,053,434)	-
Instructional library, media, and technology	1,352,135	704	141,173	-	(1,210,258)	-
School site administration	11,517,804	252,399	990,524	-	(10,274,881)	-
Pupil services:						
Home-to-school transportation	1,775,035	-	-	-	(1,775,035)	-
Food services	3,493,523	1,199,862	1,588,444	-	(705,217)	-
All other pupil services	12,562,214	345	2,184,232	-	(10,377,637)	-
General administration:						
Data processing	1,383,470	-	-	-	(1,383,470)	-
All other general administration	8,803,407	159,619	429,388	-	(8,214,400)	-
Plant services	20,628,834	2,428,451	6,480,180	-	(11,720,203)	-
Ancillary services	851,803	7,601	16,902	-	(827,300)	-
Community services	2,397,495	61,439	101,333	-	(2,234,723)	-
Interest on long-term debt	19,081,800	-	-	-	(19,081,800)	-
Other outgo	75,124	1,498,848	2,472,083	-	3,895,807	-
Depreciation (unallocated)	12,830,740	-	-	-	(12,830,740)	-
Total Governmental Activities	$ 207,939,692	$ 7,087,558	$ 28,769,686	$ -	(172,082,448)	-
Discretely Presented Component Unit						
Santa Monica-Malibu Education Foundation	$ 3,318,731	$ 28,500	$ 2,808,869	$ -		(481,362)
Total	$ 3,318,731	$ 28,500	$ 2,808,869	$ -		(481,362)
General revenues:						
Taxes and subventions:						
Taxes levied for general purposes					92,103,935	-
Taxes levied for debt service					39,956,912	-
Taxes levied for other specific purposes					23,401,415	-
Federal and state aid not restricted to specific purposes					14,444,664	-
Interest and investment earnings					578,633	727,142
Miscellaneous					33,269,587	-
Total general revenues					203,755,146	727,142
Change in net position					31,672,698	245,780
Net position beginning of fiscal year					42,967,182	8,268,241
Restatements					(21,725,085)	-
Net position, beginning of fiscal year - restated					21,242,097	8,268,241
Net position, end of fiscal year					$ 52,914,795	$ 8,514,021

See notes to basic financial statements

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2018

	General Fund	Building Fund	Bond Interest and Redemption Fund	Other Governmental Funds	Total
Assets					
Cash and investments	$ 47,670,061	$ 68,998,999	$ 42,183,382	$ 22,242,081	$ 181,094,523
Accounts receivable	6,683,156	423,995	-	1,349,676	8,456,827
Stores inventories	-	-	-	38,974	38,974
Prepaid expenditures	170,362	69,930	-	-	240,292
Other current assets	3,002,327	-	-	-	3,002,327
Total assets	$ 57,525,906	$ 69,492,924	$ 42,183,382	$ 23,630,731	$ 192,832,943
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	$ 17,334,623	10,719,690	$ -	$ 1,488,477	$ 29,542,790
Unearned revenue	1,392,971	-	-	219,535	1,612,506
Total liabilities	18,727,594	10,719,690	-	1,708,012	31,155,296
Fund balances:					
Nonspendable					
Revolving cash	20,000	-	-	-	20,000
Store inventories	-	-	-	38,974	38,974
Prepaid expenditures	170,362	69,930	-	-	240,292
Restricted					
Medi-Cal billing option	22,078	-	-	-	22,078
Lottery - instructional materials	1,545,543	-	-	-	1,545,543
College readiness block grant	108,558	-	-	-	108,558
Ongoing and major maintenance	300,824	-	-	-	300,824
Other restricted - local revenue	1,907,679	-	-	-	1,907,679
Adult education	-	-	-	368,106	368,106
Child development	-	-	-	105,913	105,913
Nutrition	-	-	-	338,370	338,370
Capital projects	-	58,703,304	-	19,506,167	78,209,471
Debt service	-	-	42,183,382	-	42,183,382
Committed					
Deferred maintenance	-	-	-	568,933	568,933
Assigned					
Adult education	-	-	-	296,241	296,241
Child development	-	-	-	700,015	700,015
Other	27,258,775	-	-	-	27,258,775
Unassigned					
Unassigned	7,464,493	-	-	-	7,464,493
Total fund balances	38,798,312	58,773,234	42,183,382	21,922,719	161,677,647
Total liabilities and fund balances	$ 57,525,906	$ 69,492,924	$ 42,183,382	$ 23,630,731	$ 192,832,943

See notes to basic financial statements

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

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

Total fund balances - governmental funds			$ 161,677,647
In governmental funds, only current assets are reported. In the statement of net position, all assets are reported, including capital assets and accumulated depreciation.			
Capital assets at historical cost		$ 605,133,668	
Accumulated depreciation		(139,560,391)	
	Net		465,573,277
In governmental funds, the net effect of refunding bonds is recognized when debt is issued, whereas this amount is deferred and amortized in the government-wide financial statements:			17,718,625
In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statement of net position, it is recognized in the period that it is incurred.			(4,863,331)
Long-term liabilities: In governmental funds, only current liabilities are reported. In the statement of net position, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consist of:			
General obligation bonds payable		$ (360,110,615)	
Bond premiums		(30,965,321)	
Bond discounts		24,957	
Accreted bond interest payable		(22,464,192)	
Certificates of participation (COP)		(6,371,502)	
COP premiums		(248,344)	
COP accreted interest payable		(6,040,014)	
Capital leases		(28,125)	
Compensated absences payable		(889,275)	
Net OPEB obligation		(38,066,329)	
Net pension liability		(173,182,541)	
	Total		(638,341,301)
In governmental funds, deferred outflows and inflows of resources relating to pensions and OPEB are not reported because they are applicable to future periods. In the statement of net position deferred outflows and inflows of resources relating to pensions and OPEB are reported.			
Deferred outflows of resources		$ 61,275,505	
Deferred inflows of resources		(10,125,627)	51,149,878
Total net position, governmental activities			$ 52,914,795

See notes to basic financial statements

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2018

	General Fund	Building Fund	Bond Interest and Redemption Fund	Other Governmental Funds	Total
Revenues:					
LCFF Sources:					
State apportionments	$ 8,434,187	$ -	$ -	$ -	$ 8,434,187
Education protection state aid	2,096,214	-	-	-	2,096,214
Local sources	91,816,954	-	-	-	91,816,954
Federal	4,378,540	-	2,286,157	3,052,583	9,717,280
Other state	10,358,283	-	65,809	6,298,031	16,722,123
Other local	53,037,594	1,795,770	40,321,253	19,348,165	114,502,782
Total revenues	170,121,772	1,795,770	42,673,219	28,698,779	243,289,540
Expenditures:					
Certificated salaries	65,715,527	-	-	3,326,495	69,042,022
Classified salaries	30,863,996	505,600	-	3,917,170	35,286,766
Employee benefits	43,075,617	229,008	-	3,176,998	46,481,623
Books and supplies	3,539,712	754,678	-	1,474,351	5,768,741
Contracted services and other operating expenditures	16,431,823	31,588,815	-	2,326,221	50,346,859
Capital outlay	1,759,433	27,861,335	-	5,683,400	35,304,168
Other outgo	(495,453)	-	-	570,577	75,124
Debt service					
Principal	51,510	-	21,180,096	1,695,000	22,926,606
Interest	1,878	-	19,412,668	168,824	19,583,370
Total expenditures	160,944,043	60,939,436	40,592,764	22,339,036	284,815,279
Excess of revenues over (under) expenditures	9,177,729	(59,143,666)	2,080,455	6,359,743	(41,525,739)
Other Financing Sources (Uses):					
Transfers in	-	-	-	1,600,000	1,600,000
Transfers out	(1,600,000)	-	-	-	(1,600,000)
Total other financing sources (uses)	(1,600,000)	-	-	1,600,000	-
Net change in fund balances	7,577,729	(59,143,666)	2,080,455	7,959,743	(41,525,739)
Fund balance - beginning	31,220,583	117,916,900	40,102,927	13,962,976	203,203,386
Fund balances - ending	$ 38,798,312	$ 58,773,234	$ 42,183,382	$ 21,922,719	$ 161,677,647

See notes to basic financial statements

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2018

Total net change in fund balances - governmental funds			$ (41,525,739)
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.			
	Capital asset additions	$ 67,435,612	
	Depreciation expense	(12,830,740)	54,604,872
If a planned capital project is canceled and will not be completed, costs previously capitalized as Construction in Progress must be written off to expense. Costs written off for canceled projects were:			(255,170)
In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reductions of liabilities. For the fiscal year ended June 30, 2018, the District has following repayments of long-term debt:			
	General obligation bonds	$ 21,180,096	
	Certificates of participation	1,695,000	
	Capital leases	51,510	22,926,606
In government funds, if debt is issued at a premium, the premium is recognized as an other financing source in the period it is incurred. In the government-wide statements, the premium plus a deferred loss from debt refunding, is amortized as interest over the life of the debt. Amortization of the debt issue premium, plus any deferred loss from debt refunding, for the period is:			623,605
In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period that it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period was:			
	Bond accreted interest accrual	$ (1,888,185)	
	Bond accreted interest paid	3,034,904	
	COPs accreted interest accrual	(528,044)	
	Bond interest accrual	(4,863,331)	
	Bond interest paid	4,122,621	(122,035)
In the statement of activities, compensated absences are measured by the amounts earned during the fiscal year. In governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially the amounts paid).			116,009

See notes to basic financial statements

(Continued)

SANTA MONICA-MALIBU 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 Fiscal Year Ended June 30, 2018

In governmental funds, OPEB costs are recognized when employer contributions are made. In the statement of activities, OPEB costs are recognized on the accrual basis. This fiscal year, the difference between OPEB costs and actual employer contributions was:	$	(1,162,446)
In government funds, pension costs are recognized when employer contributions are made. In the statement of activities, pensions costs are recognized on the accrual basis. This fiscal year, the difference between accrual basis pension costs and actual employer contributions was:		(3,533,004)
Changes in net position of governmental activities	$	31,672,698

See notes to basic financial statements

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
June 30, 2018

	Expendable Trust	Agency Funds		
	Retiree Benefits Fund	Student Body Funds	Payroll Clearance Fund	Total
Assets				
Cash and investments	$ 7,848,085	$ 413,184	$ 550,544	$ 963,728
Accounts receivable	2,427	-	681	681
Total assets	7,850,512	$ 413,184	$ 551,225	$ 964,409
Liabilities:				
Accounts payable	$ -	$ -	$ 551,225	$ 551,225
Due to student groups	-	413,184	-	413,184
Total liabilities	-	$ 413,184	$ 551,225	$ 964,409
Net Position:				
Unrestricted	$ 7,850,512			

See notes to basic financial statements

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
For the Fiscal Year Ended June 30, 2018

	Expendable Trust Retiree Benefits Fund
Additions:	
Contributions	$ 2,302,778
Investment earnings	324,257
Total additions	2,627,035
Deductions:	
Employee benefits	1,166,168
Change in net position	1,460,867
Net position - beginning	6,389,645
Net position - ending	$ 7,850,512

See notes to basic financial statements

NOTE 1— SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The Santa Monica-Malibu Unified School District was established in 1875, under the laws of the State of California. The District operates under a locally-elected seven-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 ten elementary schools, two middle schools, two high schools, one continuation high school, one alternative school, one adult education center, and fifteen child care and development centers.

The District operates under a locally elected Board form of government and provides educational services to grades K-12 as mandated by the state. A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student-related activities.

B. Component Units

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete. The District has the following discretely presented component unit:

The Santa Monica-Malibu Education Foundation (Foundation) is a legally separate, tax-exempt component unit of the District. The Foundation was established in 1982 in response to devastating federal and state education budget cuts. The Foundation was founded by a dedicated group of parents, community leaders, and local business owners to enhance and supplement the curriculum of the District. The Foundation is run by a fourteen-member Board of Directors. Although the District does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the District by the donors. Because these restricted resources held by the Foundation can be used only by, or for the benefit of, the District, the Foundation is considered a component unit of the District and is discretely presented in the District's financial statements.

NOTE 1— SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation

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

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

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

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

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

Major Governmental Funds

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

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

NOTE 1— SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

Major Governmental Funds (continued)

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

Non-Major Governmental Funds

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

Adult Education Fund: This fund is used to account separately for federal, state, and local revenues for adult education programs. Money in this fund shall be expended for adult education purposes only. Moneys received for programs other than adult education shall not be expended for adult education *(Education Code Sections* 52616[b] and 52501.5[a]).

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

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

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

NOTE 1— SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

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

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

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

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

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

Warrant/Pass-Through Fund: The Warrant/Pass-Through Fund is an agency fund that exists primarily to account separately for amounts collected from employees for federal taxes, state taxes, transfers to credit unions, and other contributions. It is also used to account for those receipts for transfer to agencies which the LEA is acting simply as a "cash conduit."

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

NOTE 1— SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting - Measurement Focus

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

Net Position equals assets and deferred outflows of resources minus liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. The net position should be reported as restricted when constraints placed on its use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net position restricted for other activities results from special revenue funds and the restrictions on their use.

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

Revenues — Exchange and Non-Exchange Transactions
Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Available" means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. Generally, "available" means collectible within the current period or within 60 days after year-end. However, to achieve comparability of reporting among California school districts and so as not to distort normal revenue patterns, with specific respect to reimbursements grants and corrections to State-aid apportionments, the California Department of Education has defined available for school districts as collectible within one year.

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

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

NOTE 1— SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting — Measurement Focus (continued)

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

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

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

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

Cash and Cash Equivalents
The District's cash and cash equivalents consist of cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Cash equivalents also include cash with county treasury balances.

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

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

NOTE 1— SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

Depreciation is computed using the straight-line method over the following estimated useful lives:

Asset Class	Estimated Useful Life
Buildings and Improvements	25 - 50 years
Furniture and Equipment	5 - 15 years
Vehicles	8 years

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

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

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

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

Other Postemployment Benefits (OPEB)

For purposes of measuring the net OPEB liability and deferred outflows/inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District's plan (OPEB Plan) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

NOTE 1— SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Fund Balance

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

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

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

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

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

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

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

NOTE 1— SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Interfund Activity

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

G. Estimates

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

H. Budgetary Data

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

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

I. Property Tax

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

J. New Accounting Pronouncements

GASB Statement No. 75, A*ccounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75). GASB 75 establishes financial reporting standards for other postemployment benefits (OPEB) plans for state and local governments. This standard replaces the requirements of GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended. The statement establishes standards for recognizing and measuring liabilities, deferred inflows and outflows of resources, and expense/expenditures, as well as identifying the methods and assumptions required to project benefit payments, discount projected benefit payments, to their actuarial present value, and attribute that present value to periods of employee service. Additionally, GASB 75 lays out requirements for additional note disclosures and required supplementary information.

NOTE 1— SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. New Accounting Pronouncements (Continued)

The District adopted this accounting standard effective July 1, 2017. As a result of adopting GASB 75, which was applied retroactively, the District restated its other postemployment benefit liability and its net position as of June 30, 2017, by $21,725,085.

K. Future Accounting Pronouncements

GASB Statements listed below will be implemented in future financial statements:

Statement No. 83	"Certain Asset Retirement Obligations"	The provision of this statement is effective for fiscal years beginning after June 15, 2018.
Statement No. 84	"Fiduciary Activities"	The provision of this statement is effective for fiscal years beginning after December 15, 2018.
Statement No. 87	"Leases"	The provision of this statement is effective for fiscal years beginning after December 15, 2019.
Statement No. 88	"Certain Disclosure Related to Debt, including Direct Borrowings and Direct Placements"	The provision of this statement is effective for fiscal years beginning after June 15, 2018.
Statement No. 89	"Accounting for Interest Cost Incurred before the End of a Construction Period"	The provision of this statement is effective for fiscal years beginning after December 15, 2019.
Statement No. 90	"Majority Equity Interest-an Amendment of GASB Statements No. 14 and No. 61	The provision of this statement is effective for fiscal years beginning after December 15, 2018.

NOTE 2— CASH AND INVESTMENTS

A. Summary of Cash and Investments

	Governmental Funds	Fiduciary Funds
Investment in county treasury	$ 180,501,796	$ 2,868,459
Cash on hand and in banks	572,727	413,184
Cash in revolving fund	20,000	-
CalPERS CERBT	-	5,530,170
Total Cash and Investments	$ 181,094,523	$ 8,811,813

B. Policies and Practices

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

Investment in County Treasury — The District maintains substantially all of its cash in the County Treasury in accordance with *Education Code Section* 41001. The Los Angeles County Treasurer's pooled investments are managed by the County Treasurer who reports on a monthly basis to the board of supervisors. In addition, the function of the County Treasury Oversight Committee is to review and monitor the County's investment policy. The committee membership includes the Treasurer and Tax Collector, the Auditor-Controller, Chief Administrative Officer, Superintendent of Schools Representative, and a public member. The fair value of the District's investment in the pool is based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

NOTE 2— CASH AND INVESTMENTS (continued)

C. General Authorizations

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

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Marker 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	$65 Million
Joint Powers Authority Pools	N/A	None	None

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Treasury. The District maintains a pooled investment with the County Treasury with a fair value of approximately $180,913,827 and an amortized book value of $183,370,255 for all governmental funds and fiduciary funds. The average weighted maturity for this pool is 609 days. The District also maintains an investment with CalPERS — California Employers' Retiree Benefit Trust (CERBT) Strategy 1 with a fair value of $5,530,170.

E. Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The investments in the County Treasury are not required to be rated. As of June 30, 2018, the pooled investments in the County Treasury and CalPERS CERBT were not rated.

NOTE 2— CASH AND INVESTMENTS (continued)

F. Custodial Credit Risk — Deposits

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

G. Fair Value

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

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

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

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

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

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

	Fair Value of Investments
	Uncategorized
Investment in county treasury	$ 183,370,255
CalPERS CERBT	5,530,170
Total fair market value of investments	$ 188,900,425

NOTE 3— ACCOUNTS RECEIVABLE

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

	General Fund	Building Fund	Non-Major Governmental Funds	Total Governmental Activities	Total Fiduciary
Federal Government					
Categorical aid	$ 2,683,739	$ -	$ 355,887	$ 3,039,626	$ -
State Government					
Categorical aid	871,374	-	3,974	875,348	-
Lottery	482,545	-	-	482,545	-
Local Government					
Other local sources	2,645,498	423,995	989,815	4,059,308	3,108
Total accounts receivable	$ 6,683,156	$ 423,995	$ 1,349,676	$ 8,456,827	$ 3,108

NOTE 4— CAPITAL ASSETS

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

	Balance July 1, 2017	Additions	Deletions	Transfers	Balance June 30, 2018
Governmental Activities					
Capital assets, not being depreciated:					
Land	$ 10,128,802	$ 4,993,421	$ -	$ -	$ 15,122,223
Construction in progress	210,679,359	59,992,779	(255,170)	(57,451,266)	212,965,702
Total capital assets, not being depreciated	220,808,161	64,986,200	(255,170)	(57,451,266)	228,087,925
Capital assets being depreciated:					
Land improvements	17,352,600	151,083	(213)	88,293	17,591,763
Buildings and improvements	275,064,503	-	-	57,438,708	332,503,211
Furniture and equipment	25,733,080	2,298,329	(1,004,905)	(75,735)	26,950,769
Total capital assets being depreciated	318,150,183	2,449,412	(1,005,118)	57,451,266	377,045,743
Accumulated depreciation for:					
Land improvements	(12,585,575)	(411,339)	213	-	(12,996,701)
Buildings and improvements	(100,398,150)	(10,779,814)	-	-	(111,177,964)
Furniture and equipment	(14,751,044)	(1,639,587)	1,004,905	-	(15,385,726)
Total accumulated depreciation	(127,734,769)	(12,830,740)	1,005,118	-	(139,560,391)
Total capital assets, being depreciated, net	190,415,414	(10,381,328)	-	57,451,266	237,485,352
Governmental activity capital assets, net	$411,223,575	$54,604,872	$ (255,170)	$ -	$465,573,277
Depreciation unallocated	$ 12,830,740				
Total depreciation expense	$ 12,830,740				

NOTE 5— INTERFUND TRANSACTIONS

Transfers

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

	Interfund Transfers In	
Interfund Transfers Out	Non-Major Governmental Funds	Total
General Fund	$ 1,600,000	$ 1,600,000
Total interfund transfers	$ 1,600,000	$ 1,600,000

From the General Fund to the Cafeteria Fund for operational costs	$ 900,000
From the General Fund to the Deferred Maintenance Fund for maintenance costs	700,000
Total interfund transfers	$ 1,600,000

NOTE 6 – ACCRUED LIABILITIES

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

	General Fund	Building Fund	Non-Major Governmental Funds	Total Governmental Activities	Total Fiduciary
Payroll	$ 14,726,845	$ 52,913	$ 738,147	$ 15,517,905	$ 551,225
Construction	-	10,666,777	-	10,666,777	-
Vendors payable	2,451,748	-	749,654	3,201,402	-
Due to grantor governments	151,856	-	-	151,856	-
Other liabilities	4,174	-	676	4,850	-
Totals accrued liabilities	$ 17,334,623	$ 10,719,690	$ 1,488,477	$ 29,542,790	$ 551,225

NOTE 7— UNEARNED REVENUE

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

	General Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal categorical sources	$ 20,422	$ -	$ 20,422
State categorical sources	534,719	90,388	625,107
Local sources	837,830	129,147	966,977
Total unearned revenue	$ 1,392,971	$ 219,535	$ 1,612,506

NOTE 8— LONG-TERM DEBT

	Balance July 1, 2017	Restatements	Additions	Deletions	Balance June 30, 2018	Due within One Year
Governmental Activities						
General obligation bonds:						
Principal	$ 381,290,711	$ -	$ -	$ (21,180,096)	$ 360,110,615	$ 23,121,117
Unamortized premium	32,711,428	-	-	(1,746,107)	30,965,321	1,746,107
Unamortized discount	(26,740)	-	-	1,783	(24,957)	(1,783)
Accreted interest	23,610,911	-	1,888,185	(3,034,904)	22,464,192	3,243,605
Total general obligation bonds	437,586,310	-	1,888,185	(25,959,324)	413,515,171	28,109,046
Certificates of participation payable:						
Principal	8,066,502	-	-	(1,695,000)	6,371,502	919,183
Unamortized premium	293,652	-	-	(45,308)	248,344	45,308
Accreted interest	5,511,970	-	528,044	-	6,040,014	822,355
Total certificates of participation payable	13,872,124	-	528,044	(1,740,308)	12,659,860	1,786,846
Capital leases	79,635	-	-	(51,510)	28,125	28,125
Compensated absences	1,005,284	-	-	(116,009)	889,275	222,319
Net OPEB obligation	15,140,355	21,784,323	1,237,908	(96,257)	38,066,329	-
Net pension liability	146,146,001	-	39,647,935	(12,611,395)	173,182,541	-
Totals	$ 613,829,709	$ 21,784,323	$ 43,302,072	$ (40,574,803)	$ 638,341,301	$ 30,146,336

Payments for general obligation bonds are made in the Bond Interest and Redemption Fund.

Payments on certificates of participation are made in the Special Reserve Fund for Capital Outlay Projects.

Payments for capital lease obligations are made in the General Fund.

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

Payments for Net OPEB liability are typically made in the General Fund.

Payments for pension liability are typically liquidated in the General Fund and the Non-Major Governmental Funds.

NOTE 8— LONG-TERM DEBT (continued)

A. Bonded Debt

Payments for bonds associated with general obligation bonds are made in the Bond Interest and Redemption Fund. A summary of bonded debt is as follows:

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2017	Additions	Deductions	Bonds Outstanding June 30, 2018
1998 Refunding Bonds	6/18/1998	8/1/2028	3.75%-5.25%	$ 68,145,000	$ 8,820,000	$ -	$ (4,295,000)	$ 4,525,000
Election 1998, Series 1999	5/26/1999	8/1/2023	3.20%-5.38%	38,000,034	14,390,711	-	(1,850,096)	12,540,615
Election 1998, Series 1999 Accreted Interest					23,610,911	1,888,185	(3,034,904)	22,464,192
Election 2006, Series A	10/2/2007	8/1/2032	4.00%-5.50%	60,000,000	825,000	-	(825,000)	-
Election 2006, Series B	7/23/2009	8/1/2019	1.50%-5.00%	11,875,000	4,335,000	-	(1,265,000)	3,070,000
Election 2006, Series C	7/14/2010	7/1/2023	3.00%-5.00%	10,690,000	3,555,000	-	(630,000)	2,925,000
2013 Refunding Bonds	1/8/2013	8/1/2032	2.00%-5.00%	45,425,000	44,525,000	-	(245,000)	44,280,000
Election 2006, Series D	3/19/2013	7/1/2037	0.17%-5.00%	82,995,327	60,385,000	-	(135,000)	60,250,000
Election 2012, Series A	7/29/2014	7/1/2037	1.00%-3.70%	30,000,000	7,730,000	-	-	7,730,000
Election 2012, Series B	7/1/2015	7/1/2040	1.00%-3.70%	60,000,000	47,820,000	-	(11,540,000)	36,280,000
2015 Refunding Bonds	11/10/2015	8/1/2034	3.25%-5.00%	47,915,000	47,915,000	-	-	47,915,000
2016 Series A Refunding Bonds	10/11/2016	7/1/2035	1.00%-4.00%	28,190,000	28,190,000	-	(395,000)	27,795,000
2016 Series B Refunding Bonds	10/11/2016	7/1/2032	3.00%	660,000	660,000	-	-	660,000
2016 Series C Refunding Bonds	10/11/2016	7/1/2035	2.00%-4.00%	52,140,000	52,140,000	-	-	52,140,000
Election 2012, Series C	6/21/2017	7/1/2042	3.125%-5.00%	60,000,000	60,000,000	-	-	60,000,000
		General obligation bonds			404,901,622	1,888,185	(24,215,000)	382,574,807
		Unamortized premium			32,711,428	-	(1,746,107)	30,965,321
		Unamortized discount			(26,740)	-	1,783	(24,957)
		Total general obligation bonds			$ 437,586,310	$ 1,888,185	$ (25,959,324)	$ 413,515,171

Series 1998 Refunding Bonds

On June 18, 1998, the District issued $68,145,000 of General Obligation Refunding Bonds Series 1998, with interest rates ranging from 3.75% to 5.25%. The bonds were issued to refund and defease all of the 1991A Bonds and 1993 Bonds maturing after August 1, 1998. The original issuance consisted entirely of current interest serial bonds. Interest on the bonds is payable semi-annually each February 1 and August 1, commencing February 1, 1999, principal on the bonds is payable annually each August 1, commencing August 1, 1999 through the final maturity date of August 1, 2018. The principal balance outstanding on June 30, 2018 amounted to $4,525,000.

Election 1998

In an election held November 3, 1998, the voters authorized the District to issue and sale $42,000,000 of principal amount of general obligation bonds. These bonds were issued for the purpose of financing the rehabilitation, construction, and renovation of school facilities to improve learning conditions, removing asbestos, making earthquake safety improvements and providing handicapped access, as well as paying the costs of issuance incurred in connection with the issuance of the bonds. There is one issuance outstanding under this election.

NOTE 8— LONG-TERM DEBT (continued)

A. Bonded Debt (continued)

Election 1998 (continued)
Series 1999, which was issued on May 26, 1999 for $38,000,034 with interest rates ranging from 3.20% to 4.50%. The original issuance consisted of $15,825,000 in current interest serial bonds and $22,175,034 in capital appreciation serial bonds. Interest on the current interest bonds accrues from its dated date and is payable semi-annually each February 1 and August 1, commencing February 1, 2000, principal on the bonds is payable annually each August 1, commencing August 1, 2000 through the final maturity date of August 1, 2011. The capital appreciation bonds accrue interest from its dated date, compounded semi-annually on February 1 and August 1 of each year, principal on the bonds is payable annually each August 1, commencing August 1, 2012 through the final maturity date of August 1, 2023. The principal balance outstanding and accreted interest on June 30, 2018 amounted to $12,540,615 and $22,464,192 respectively.

Election 2006
In an election held November 7, 2006, the voters authorized the District to issue and sale $268,000,000 of principal amount of general obligation bonds. These bonds were issued for the purpose of financing the construction, renovation, modernization, and equipping of school facilities and to pay costs of issuance associated with the bonds. There were six issuances under this election:

Series A, which was issued on October 2, 2007 for $60,000,000 with interest rates ranging from 4.00% to 5.00%. The original issuance consisted of $45,835,000 in current interest serial bonds and $14,165,000 in current interest term bonds. Interest on the bonds is payable semi-annually each February 1 and August 1, commencing February 1, 2008, principal on the bonds is payable annually each August 1, commencing August 1, 2008 through the final maturity date of August 1, 2032. The principal balance outstanding on June 30, 2018 amounted to $0.

Series B, which was issued on July 23, 2009 for $11,875,000 with interest rates ranging from 1.50% to 5.00%. The original issuance consisted entirely of current interest serial bonds. Interest on the bonds is payable semiannually each February 1 and August 1, commencing February 1, 2010, principal on the bonds is payable annually each August 1, commencing August 1, 2010 through the final maturity date of August 1, 2019. The principal balance outstanding on June 30, 2018 amounted to $3,070,000.

Series C, which was issued on July 14, 2010 for $10,690,000 with interest rates ranging from 3.00% to 5.00%. The original issuance consisted entirely of current interest serial bonds. Interest on the bonds is payable semiannually each January 1 and July 1, commencing January 1, 2011, principal on the bonds is payable annually each July 1, commencing July 1, 2011 through the final maturity date of July 1, 2023. On October 11, 2016, the District issued 2016 Series A to advance refund the entire remaining balance of 2006 General Obligation Refunding Bonds, a partial of Election 2006 Series C Bonds, and a partial of Election 2006 Series D Bonds. The advance refunding resulted in a legal defeasance of the bonds. An irrevocable trust was established with funds sufficient to fund payments on the bonds until the redemption date. The difference between the debt service of the original bonds and the refunding bonds is $10,283,406 and an economic gain (difference between the present values of the old and new debt) of $5,185,372. Because the transaction qualifies as a legal defeasance the obligations for the defeased bonds have been removed from the District's financial statements. The principal balance outstanding on June 30, 2018 amounted to $2,925,000.

NOTE 8— LONG-TERM DEBT (continued)

A. <u>Bonded Debt (continued)</u>

Election 2006 (continued)

Series D, which was issued on March 19, 2013 for $82,995,327 with interest rates ranging from 0.17% to 5.00%. The original issuance consisted of $42,780,000 in current interest serial bonds, $24,200,000 in current interest term bonds and $16,015,327 in capital appreciation serial bonds. Interest on the current interest bonds is payable semi-annually each January 1 and July 1, commencing July 1, 2013, principal on the bonds is payable annually each July 1, commencing July 1, 2013 through the final maturity date of July 1, 2037. On October 11, 2016, the District issued 2016 Series A to advance refund the entire remaining balance of 2006 General Obligation Refunding Bonds, a partial of Election 2006 Series C Bonds, and a partial of Election 2006 Series D Bonds. The advance refunding resulted in a legal defeasance of the bonds. An irrevocable trust was established with funds sufficient to fund payments on the bonds until the redemption date. The difference between the debt service of the original bonds and the refunding bonds is $10,283,406 and an economic gain (difference between the present values of the old and new debt) of $5,185,372. Because the transaction qualifies as a legal defeasance the obligations for the defeased bonds have been removed from the District's financial statements. The principal balance outstanding on June 30, 2018 amounted to $60,250,000.

2013 General Obligation Refunding Bonds

On January 8, 2013, the District issued $45,425,000 of 2013 General Obligation Refunding Bonds, with interest rates ranging from 2.00% to 5.00%. The bonds were issued to refund all or a portion of the District's outstanding General Obligation Bonds, Election of 2006, Series A and pay costs of issuance of the bonds. The original issuance consisted entirely of current interest serial bonds. Interest on the bonds is payable semiannually each February 1 and August 1, commencing August 1, 2032, principal on the bonds is payable annually each August 1, commencing August 1, 2013 through the final maturity date of August 1, 2013. The principal balance outstanding on June 30, 2018 amounted to $44,280,000.

Election 2012

On November 6, 2012, the voter's in the District approved Measure ES, a bond proposition whereby the District is authorized to borrow $385 million.

Series A, on July 29, 2014, the District issued $30,000,000 of Election 2012, Series A General Obligation Bonds, with interest rates ranging from 2.00% to 5.00%. The original issuance consisted entirely of current interest serial bonds. Interest on the bonds is payable semi-annually each January 1 and July 1, commencing January 1, 2015. Principal on the bonds is payable on July 1 consisting of seven separate payments through the final maturity date of July 1, 2037. As of June 30, 2018, the full principal balance of $7,730,000 remained outstanding.

Series B, on July 1, 2015, the District issued $60,000,000 of Election 2012, Series B General Obligation Bonds, with interest rates ranging from 1.00% to 3.70%. The original issuance consisted entirely of current interest serial bonds. Interest on the bonds is payable semi-annually each January 1 and July 1, commencing January 1, 2016. Principal on the bonds is payable on July 1 through the final maturity date of July 1, 2040. As of June 30, 2018, the full principal balance of $36,280,000 remained outstanding.

NOTE 8 — LONG-TERM DEBT (continued)

A. <u>Bonded Debt</u> (continued)

Election 2012 (continued)

Series C, on June 21, 2017, the District issued $60,000,000 of Election 2012, Series C General Obligation Bonds, with interest rates ranging from 3.125% to 5.00%. The original issuance consisted $46,995,000 of current interest serial bonds and $13,005,000 term bonds. Interest on the bonds is payable semi-annually each January 1 and July 1, commencing January 1, 2018. Principal on the bonds is payable on July 1 through the final maturity date of July 1, 2042. As of June 30, 2018, the full principal balance of $60,000,000 remained outstanding.

2015 General Obligation Refunding Bonds

On November 10, 2015, the District issued $47,915,000 of 2015 General Obligation Refunding Bonds, with interest rates ranging from 3.25% to 5.00%. The bonds were issued to advance refund the District's outstanding General Obligation Bonds, Election of 2006, Series B-1 and pay costs of issuance of the bonds. The original issuance consisted entirely of current interest serial bonds. Interest on the bonds is payable semi-annually each February 1 and August 1, commencing February 1, 2016, principal on the bonds is payable annually each August 1, commencing August 1, 2020 through the final maturity date of August 1, 2034. The principal balance outstanding on June 30, 2018 amounted to $47,915,000.

Amounts paid to the refunded bond escrow agent in excess of the outstanding debt at the time of payment are recorded as deferred amount on refunding on the statement of net position and are amortized as an expense over the life of the bond. As of June 30, 2018, the principal balance on the defeased debt was $48,125,000.

2016 General Obligation Refunding Bonds

On October 11, 2016, the District issued $28,190,000, $660,000, and $52,140,000 of 2016 General Obligation Refunding Bonds Series A, Series B, and Series C respectively, with interest rates ranging from 1.00% to 5.00%. The bonds were issued to advance refund the District's outstanding 2006 General Obligation Refunding Bonds, Election 2006, Series C, Election 2006, Series C-1, and Election 2006, Series D and pay costs of issuance of the bonds. Interest on the bonds is payable semi-annually each July 1 and January 1, commencing January 1, 2017, principal on the bonds is payable annually each July 1, commencing July 1, 2017 through the final maturity date of July 1, 2035. The principal balance outstanding on June 30, 2018 for Series A, B, and C amounted to $27,795,000, $660,000 and $52,140,000 respectively.

Amounts paid to the refunded bond escrow agent in excess of the outstanding debt at the time of payment are recorded as deferred amount on refunding on the statement of net position and are amortized as an expense over the life of the bond. As of June 30, 2018, the principal balance on the 2006 General Obligation Refunding Bonds, Election 2006, Series C, Election 2006, Series C-1, and Election 2006, Series D defeased debts were $0, $4,955,000, $54,310,000, $16,015,327 respectively.

NOTE 8— LONG-TERM DEBT (continued)

A. Bonded Debt (continued)

Debt Service Requirements to Maturity — Bonds The bonds mature through 2043 as follows:

Fiscal Years	General Obligation Bonds		
Ending June 30,	Principal	Interest	Total
2019	$ 23,121,117	$ 13,669,801	$ 36,790,918
2020	20,244,265	14,516,872	34,761,137
2021	7,888,576	17,372,918	25,261,494
2022	8,497,008	17,192,666	25,689,674
2023	9,201,960	17,063,565	26,265,525
2024-2028	53,682,689	57,877,173	111,559,862
2029-2033	92,775,000	38,747,955	131,522,955
2034-2038	114,085,000	17,739,769	131,824,769
2039-2043	30,615,000	2,374,773	32,989,773
Total	$ 360,110,615	$ 196,555,492	$ 556,666,107

B. Certificates of Participation (COPs)

A summary of the District's certificate of participation are as follows:

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Certificates Outstanding July 1, 2017	Additions	Deductions	Certificates Outstanding June 30, 2018
2001 Series C	11/15/2001	5/1/2015	3.5%-5.4%	$ 15,206,501	$ 4,466,502	$ -	$ -	$ 4,466,502
2002 Series C Accreted Interest					5,511,970	528,044	-	6,040,014
2010 Series B	12/1/2010	2/1/2024	2.0%-5.0%	8,015,000	3,600,000	-	(1,695,000)	1,905,000
		Certificated of participation			13,578,472	528,044	(1,695,000)	12,411,516
		Unamortized premium			293,652	-	(45,308)	248,344
		Total certificates of participation			$ 13,872,124	$ 528,044	$ (1,740,308)	$ 12,659,860

2001 Series C

On November 15, 2001, the District and the Los Angeles County Schools Regionalized Business Services Corporation entered a sublease in which the Corporation leased to the District certain real property and buildings and improvements situated thereon. The 2001 Series C Certificates of Participation were executed and delivered to finance payments relating to acquisition of certain interests in real property, fund a reserve fund and pay costs of execution and delivery of the certificates. Series C Certificates consisted of $10,740,000 of current interest serial certificates and $4,466,501 of capital appreciation serial certificates for a total issuance of $15,206,501.

The certificates have interest rates ranging from 3.50% to 5.40%. Interest on the current interest certificates is payable semi-annually each May 1 and November 1, commencing May 1, 2002, principal on the certificates is payable annually each May 1, commencing May 1, 2002 through the final maturity date of May 1, 2018. Interest on the capital appreciation certificates accretes from the dated date, compounded semi-annually on each May 1 and November 1, commencing May 1, 2002, principal and interest payments are payable semi-annually each May 1 and November 1, commencing November 1, 2018 through the final maturity date of May 1, 2025. A portion of the outstanding certificates were refunded with proceeds from the 2010 Refunding Certificates. The outstanding principal and accreted interest balance at June 30, 2018 amounted to $4,466,502 and $6,040,014 respectively.

NOTE 8— LONG-TERM DEBT (continued)

B. Certificates of Participation (COPs) (continued)

2010 Refunding, Series B (Tax-Exempt)

On December 1, 2010, the District and the California School Boards Association Finance Corporation entered a sublease in which the Corporation leased to the District certain real property and building and improvements situated thereon. The 2010 Refunding Certificates of Participation, Series B were executed and delivered to refund a portion of the District's outstanding Certificates of Participation, 2001 Series C, finance the construction, renovation, and modernization of school sites and facilities, and pay the costs related to the execution and delivery of the Certificates. Series B Certificates consisted of $8,015,000 in current interest serial certificates. The certificates have interest rates ranging from 2.00% to 5.00%. Interest on the certificates is payable semi-annually each May 1 and November 1, commencing May 1, 2011, principal on the certificates is payable annually each May 1, commencing May 1, 2014 through the final maturity date of May 1, 2024. The principal balance outstanding at June 30, 2018 amounted to $1,905,000.

Debt Service Requirements to Maturity – COPs

The certificates mature through 2025 as follows:

Fiscal Years	Certificates of Participation		
Ending June 30,	Principal	Interest	Total
2019	$ 919,183	$ 949,948	$ 1,869,131
2020	892,929	974,802	1,867,731
2021	1,038,227	1,272,704	2,310,931
2022	1,006,861	1,306,670	2,313,531
2023	985,632	1,331,899	2,317,531
2024-2025	1,528,670	2,726,862	4,255,532
Total	$ 6,371,502	$ 8,562,885	$ 14,934,387

C. Capital Leases

The District entered into two capital leases with options to purchase for bus fleets. Payments for capital lease obligations are made in the General Fund. Future minimum lease payments are as follows:

Fiscal Years Ending June 30,	Lease Payment
2019	$ 28,798
Total minimum lease payments	28,798
Less amount representing interest	(673)
Present value of minimum lease payments	$ 28,125

D. Compensated Absences

Total unpaid employee compensated absences as of June 30, 2018 amounted to $889,275. This amount is included as part of long-term liabilities in the government-wide financial statements.

NOTE 8— LONG-TERM DEBT (continued)

E. Other Postemployment Benefits (OPEB)

The District follows GASB Statement No, 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions. The ending OPEB balance at June 30, 2018 was $38,066,329. See Notes 10 and 11 for additional information regarding the net OPEB Obligation and the postemployment benefit plan.

F. Pension Liability

The District's beginning net pension liability was $146,146,001 and increased by $27,036,540 during the fiscal year ended June 30, 2018. The ending net pension liability at June 30, 2018 was $173,182,541. See Note 11 for additional information regarding the net pension liability.

NOTE 9— FUND BALANCES

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

	General Fund	Building Fund	Bond Interest & Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
Non-spendable					
Revolving cash	$ 20,000	$ -	$ -	$ -	$ 20,000
Stores inventories	-	-	-	38,974	38,974
Prepaid expenditures	170,362	69,930	-	-	240,292
Total Non-spendable	190,362	69,930	-	38,974	299,266
Restricted					
Educational programs	3,884,682	-	-	368,106	4,252,788
Capital projects	-	58,703,304	-	19,506,167	78,209,471
Debt service	-	-	42,183,382	-	42,183,382
All others	-	-	-	444,283	444,283
Total Restricted	3,884,682	58,703,304	42,183,382	20,318,556	125,089,924
Committed					
Others commitments	-	-	-	568,933	568,933
Total Committed	-	-	-	568,933	568,933
Assigned					
Reserve for FY 19-21 deficit spending	3,068,829	-	-	-	3,068,829
Reserve up to two months expenses	22,129,753	-	-	-	22,129,753
Other assignments	2,060,193	-	-	996,256	3,056,449
Total Assigned	27,258,775	-	-	996,256	28,255,031
Unassigned					
Reserve for economic uncertainties	4,857,751	-	-	-	4,857,751
Unassigned	2,606,742	-	-	-	2,606,742
Total Unassigned	7,464,493	-	-	-	7,464,493
Total	$ 38,798,312	$ 58,773,234	$ 42,183,382	$ 21,922,719	$ 161,677,647

The District is committed to maintaining a prudent level of financial resources to protect against the need to reduce service levels because of temporary revenue shortfalls or unpredicted expenditures. The District's Minimum Fund Balance Policy requires a Reserve for Economic Uncertainties, consisting of unassigned amounts, equal to no less than three (3) percent of General Fund expenditures and other financing uses.

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS (OPEB)

At June 30, 2018, net OPEB liability and related deferred inflows of resources are as follows:

	Governmental Activities
Net OPEB liabilities:	$ 37,210,407
Total net OPEB liabilities	$ 37,210,407
Deferred inflows of Resources:	
Net differences between projected and actual earnings of investments	$ 16,710
Total deferred inflows of resources	$ 16,710

Plan Description

Plan administration. The District sponsors healthcare coverage under the California Public Employees Medical and Hospital Care Act ("PEMHCA"), commonly referred to as PERS Health. PEMHCA provides health insurance through a variety of Health Maintenance Organization (HMO) and Preferred Provider Organization (PPO) options. Participation in PEMHCA is financed in part by the District through contributions of amounts up to the premiums for either of the PEMHCA HMOs (including dependent coverage), plus coverage under one of the District's dental plans (Delta Dental and Delta Care). This contribution includes the statutory minimum ($128.00 per month for 2017) that the District designates for PEMHCA. The $128.00 per month is scheduled by law to be indexed with medical inflation (CPI) for years 2016 and thereafter. The District also contributes the PEMHCA administrative fee of 0.33% of premium for all active employees.

Benefits provided. The District also offers PEMHCA to its retirees. The District contributes the statutory minimum ($128.00 per month for 2017) as well as the administrative fee of 0.33% of premium to PEMHCA on behalf of each retiree eligible for and participating in PEMHCA. Furthermore, the District makes supplemental contributions towards eligible retirees' premiums until age 65 according to provisions of the District's agreements with its various employee groups, as described below.

Certificated and Management employees with at least 10 years of full-time equivalent service and age 55 or over may retire with District-paid medical and dental benefits. The Classified agreement does not specific a minimum age and service for retirement; for purposes of this valuation, we have assumed that Classified will be subject to the same provisions as the other groups. The District contribution each year is set equal to the Blue Shield HMO or Kaiser HMO retiree-only premium plus the retiree-only premium for Delta Dental or Delta Care Dental. For retirees electing PERS Choice or PERS Care, the District contribution is limited to the Kaiser retiree-only premium. The supplemental District contributions end at age 65, at which point retirees may elect to continue coverage for their further lifetime under PEMHCA and receive the statutory minimum District contribution (currently $128.00/month).

Plan membership. At July 1, 2017, membership consisted of the following:

Active plan members	1,399
Inactive employees or beneficiaries currently receiving benefit payments	399
Inactive employees entitled to but not yet receiving benefit payments	-
Total	1,798

NOTE 10— OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued)

Contributions. The District currently finances benefits on a pay-as-you-go basis. The District has a CERBT Strategy 1 OPEB Trust which they made a $1,000,000 contribution to in the 2017-18 fiscal year.

Net OPEB Liability

The District's Net OPEB Liability was measured as of June 30, 2018 and the Total OPEB Liability used to calculate the Net OPEB Liability was determined by an actuarial valuation as of July 1, 2017. Standard actuarial update procedures were used to project/discount from valuation to measurement dates.

Actuarial assumptions. The total OPEB liability was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Salary increase	3.00 percent
Investment rate of return	5.00 percent, net of OPEB plan investment expense
Healthcare cost trend rate	6.00 percent for 2016; 5.00 percent for 2017 and later years

Pre-retirement mortality rates were based on the RP-2014 Employee Mortality Table for Males or Females, as appropriate, without projection. Post-retirement mortality rates were based on the RP-2014 Health Annuitant Mortality Table for Males or Females, as appropriate, without projection.

Actuarial assumptions used in the July 1, 2017 valuation were based on a review of plan experience during the period July 1, 2015 to June 30, 2017.

The long-term expected rate of return on OPEB 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 investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. To achieve the goal set by the investment policy, plan assets will be managed to earn, on a long-term basis, a rate of return equal to or in excess of the target rate of return of 5.00 percent.

Discount rate. GASB 75 requires a discount rate that reflects the following:

a) The long-term expected rate of return on OPEB plan investments – to the extent that the OPEB plan's fiduciary net position (if any) is projected to be sufficient to make projected benefit payments and assets are expected to be invested using a strategy to achieve that return;
b) A yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher – to the extent that the conditions in (a) are not met.

To determine a resulting single (blended) rate, the amount of the plan's projected fiduciary net position (if any) and the amount of projected benefit payments is compared in each period of projected benefit payments. The discount rate used to measure the District's Total OPEB liability is based on these requirements and the following information:

Reporting Date	Measurement Date	Long-Term Expected Return of Plan Investments	Municipal Bond 20 Year High Grade Rate Index	Discount Rate
July 1, 2017	July 1, 2017	5.00%	3.13%	5.00%
June 30, 2018	June 30, 2018	5.00%	3.62%	5.00%

NOTE 10— OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued)

Change in the Net OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability/(Asset) (c) = (a) - (b)
Balance at fiscal year ending June 30, 2017	$ 40,194,946	$ 4,222,447	$ 35,972,499
Changes Recognized for the Measurement Period:			
Service Cost	2,016,686	-	2,016,686
Interest on the total OPEB liability	1,974,060	-	1,974,060
Changes of benefit terms	-	-	-
Difference between expected and actual experience	-	-	-
Changes of assumptions	-	-	-
Contributions from the employer	-	2,445,115	(2,445,115)
Net investment income	-	311,899	(311,899)
Administrative expenses	-	(4,176)	4,176
Benefit payments	(1,445,115)	(1,445,115)	-
Net Changes during July 1,2017 to June 30, 2018	2,545,631	1,307,723	1,237,908
Balance at fiscal year ending June 30, 2018 (Measurement Date)	$ 42,740,577	$ 5,530,170	$ 37,210,407

Sensitivity of the Net OPEB Liability to changes in the discount rate

The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.00 percent) or 1-percentage- point higher (6.00 percent) than the current discount rate:

Plan's Net OPEB Liability (Asset)		
Current Discount Rate - 1%	Current Discount Rate	Current Discount Rate + 1%
$ 42,900,082	$ 37,210,407	$ 32,452,888

Sensitivity of the Net OPEB Liability to changes in the health care cost trend rates

The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (4.00 percent) or 1-percentage-point higher (6.00 percent) than the current healthcare cost trend rates:

Plan's Net OPEB Liability (Asset)		
Current Trend Rate - 1%	Current Healthcare Cost Trend Rate	Current Trend Rate + 1%
$ 34,628,363	$ 37,210,407	$ 40,344,804

NOTE 10— OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued)

Investments

Investment policy. The allocation of the plan's invested assets is established by CERBT Strategy 1. The objective is to seek returns that reflect the broad investment performance of the financial markets through capital appreciation and investment income. The asset allocations and benchmarks for CERBT Strategy 1 are listed below:

Asset Class	Target Allocation	Target Range	Benchmark
Global Equity	57%	+/- 2%	MSCI All Country World Index IMI (net)
Fixed Income	27%	+/- 2%	Bloomberg Barclays Long Liability Index
Treasury Inflation-Protected Securities	5%	+/- 2%	Bloomberg Barclays Barclays US TIPS Index
Real Estate Investment Trusts	8%	+/- 2%	FTSE EPRA/NAREIT Developed Liquid Index (net)
Commodities	3%	+/- 2%	
Cash	0%	+/- 2%	91 Day Treasury Bill

CalPERS may overweight or underweight an allocation to a particular asset class based on market, economic, or CalPERS policy considerations.

Rate of return. For the year ended on the measurement date, the annual money-weighted rate of return on investments, net of investment expense, was 6.61 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts invested.

Annual money-weighted rate of return, net of investment expense	6.61%

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

For the fiscal year ended June 30, 2018, the District recognized OPEB expense of $3,699,733. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net differences between projected and actual earnings of investments	$ -	$ 16,710
Total	$ -	$ 16,710

Amounts reported as deferred inflows and outflows of resources will be recognized in the OPEB expense as follows:

Measurement Period Ended June 30,	Recognized Net Deferred Outflows (Inflows) of Resources
2019	$ (4,177)
2020	(4,177)
2021	(4,177)
2022	(4,179)
Total	$ (16,710)

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS MEDICARE PREMIUMS PAYMENT PROGRAM (OPEB)

Plan Description

CalSTRS administers a cost sharing multiple-employer other postemployment benefit plan (OPEB), the Medicare Premiums Payment Program (MPP) for all eligible members of the State Teachers' Retirement plan that were retired or began receiving a disability allowance prior to July 1, 2012 and were not eligible for premium free Medicare Part A. CalSTRS administers the MPP Program through the Teachers' Health Benefits Fund. CalSTRS issues a publicly available financial report that can be obtained at https://www.calstrs.com/comprehensive-annual-financial-report.

Benefits Provided

The Medicare Premiums Payment Program (MPP) provides all employees' Medicare Part A premiums and Medicare Part A and B late enrollment surcharges for eligible members of the State Teachers' Retirement plan that were retired or began receiving a disability allowance prior to July 1, 2012 and were not eligible for premium free Medicare Part A.

Contributions

Since the plan is only for employees retired or receiving a disability allowance prior to July 1, 2012, the plan is funded on a pay-as-you go basis. The premium rates for Medicare A for employees without 30-39 quarters of Medicare employment was $411 from July 1, 2016 to December 31, 2016 and $413 from January 1, 2017 to June 30, 2017. The premium rates for Medicare A for employees with 30-39 quarters of Medicare employment was $226 from July 1, 2016 to December 31, 2016 and $227 from January 1, 2017 to June 30, 2017. Contributions to the OPEB plan from the District were $55,171 for the fiscal year ended June 30, 2018. Employees are not required to contribute to the OPEB plan.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2018, the District reported a liability of $855,922 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 using standard update procedures. 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. At June 30, 2017, the District's proportion was 0.0203448%.

For the fiscal year ended June 30, 2018, the District recognized OPEB expense of $(92,172). As of fiscal year ended June 30, 2018, the District reported deferred outflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to measurement date	$ 55,171	$ -
Change in assumptions		
Net difference between projected and actual earnings on retirement plan investments	-	18
	$ 55,171	$ 18

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS MEDICARE PREMIUMS PAYMENT PROGRAM (OPEB) (continued)

The $55,171 reported as deferred outflows of resources related to contributions subsequent to the June 30, 2017 measurement date will be recognized as a reduction of the net OPEB liability during the fiscal year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as expense as follows:

Fiscal year Ending June 30,	Amount
2019	$ 6
2020	6
2021	6
2022	-
	$ 18

Actuarial Assumptions

The District's net OPEB liability was measured as of June 30, 2017 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated June 30, 2016 that was rolled forward to determine the June 30, 2017 total OPEB liability, based on the following actuarial methods and assumptions:

Discount Rate	3.58%
Investment Rate of Return	3.58%
Mortality Rate	Custom mortality tables based on RP2000 Series tables issued by the Society of Actuaries
Medicare Part A Premium Costs Trend Rate	3.70%
Medicare Part B Premium Costs Trend Rate	4.10%

Mortality rates were based on the RP2000 Series tables issued by the Society of Actuaries, adjusted to fit CALSTRS specific experience through June 30, 2015. For the valuation 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 our members. The projection scale was set equal to 110 percent of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016), issued by the Society of Actuaries.

Discount Rate

The discount rate used to measure the total OPEB liability was 3.58 percent. The MPP Program is funded on a pay-as-you-go basis and under this 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, which is the Bond Buyer 20-Bond GO Index from Bondbuyer.com as of June 30, 2017, was applied to all periods of projected benefit payments to measure the total OPEB liability.

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS MEDICARE PREMIUMS PAYMENT PROGRAM (OPEB) (continued)

Change in the Net OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability/(Asset)
Balance at June 30, 2017 (Valuation Date June 30, 2016)	$ 952,199	$ 20	$ 952,179
Changes recognized for the measurement period:			
Interest	26,301	-	26,301
Difference between expected and actual experience	(83)	-	(83)
Changes of assumptions	(63,557)	-	(63,557)
Contributions - employer	-	59,238	(59,238)
Net investment income	-	22	(22)
Benefit payments	(58,855)	(58,855)	
Administrative expense	-	(342)	342
Net Changes	(96,194)	63	(96,257)
Balance at June 30, 2018 (Measurement Date June 30, 2017)	$ 856,005	$ 83	$ 855,922

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the District if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate, for measurement period ended June 30, 2017:

	1% Decrease 2.58%	Discount Rate 3.58%	1% Increase 4.58%
Net OPEB Liability	$ 947,565	$ 855,922	$ 766,779

Sensitivity of the Net OPEB Liability to Changes in the Health Care Cost Trend Rates

The following presents the net OPEB liability of the District if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current rate, for measure period ended June 30, 2017:

	1% Decrease (2.7% Part A and 3.1 Part B)	Current Healthcare Cost Trend Rates (3.7% Part A and 4.1% Part B)	1% Increase (4.7% Part A and 5.1% Part B)
Net OPEB Liability	$ 773,456	$ 855,922	$ 937,563

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS MEDICARE PREMIUMS PAYMENT PROGRAM (OPEB) (continued)

OPEB Plan Fiduciary Net Position

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, 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. For more information on the Surplus Money Investment Fund, see https://www.treasurer.ca.gov/pmia-laif/pmia/index.asp.

Payables to the OPEB Plan

At June 30, 2018, the District had no amount outstanding for contributions to the OPEB plan required for the fiscal year ended June 30, 2018.

NOTE 12 – PENSION PLANS

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

As of June 30, 2018, the District's proportionate share of the net pension liabilities, pension expense, and deferred inflows of resources and deferred outflows of resources for each of the retirement plans are as follows:

Pension Plan	Proportionate Share of Net Pension Liability	Deferred Outflows of Resources	Deferred Inflows of Resources	Proportionate Share of Pension Expense
CalSTRS	$ 118,214,471	$ 44,464,841	$ 9,212,784	$ 10,326,443
CalPERS	54,968,070	16,755,493	896,115	9,703,636
Total	$ 173,182,541	$ 61,220,334	$ 10,108,899	$ 20,030,079

California State Teacher's Retirement System (CalSTRS)

A. General Information about the Pension Plan

Plan Descriptions – All qualified California full-time and part-time public-school teachers from pre-kindergarten through community college and certain other employees of the public-school system are eligible to participate in the CalSTRS Pension Plans, multiple-employer, cost-sharing defined benefit plans administered by the California State Teacher's Retirement System (CalSTRS). Benefit provisions under the Plans are established by the Teachers' Retirement Law (California Education Code Section 22000 et seq), as enacted and amended by the California Legislature. The benefit terms of the plans may be amended through legislation CalSTRS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalSTRS website.

Benefits Provided – The CALSTRS Defined Benefit Program has two benefit formulas:

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

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

NOTE 12— PENSION PLANS (continued)

California State Teacher's Retirement System (CalSTRS) (continued)

A. General Information about the Pension Plan (continued)

Benefits Provided (Continued)

The Defined Benefit Program provides retirement benefits based on members' final compensation, age and years of service credit. In addition, the retirement program provides benefits to members upon disability and on survivors/beneficiaries upon death of eligible members.

After earning five years of credited service, members become 100 percent vested in retirement benefits.

After five years of credited service, a member (prior to age 60 if under Coverage A, no age limit if under Coverage B, as defined in Education Code Sections 24001 and 24101, respectively) is eligible for disability benefits of up to 50.0 percent of final compensation plus 10.0 percent of final compensation for each eligible child, up to a maximum addition of 40.0 percent. The member must have a disability that will exceed a period of 12 or more months to qualify for benefit.

Any compensation for service in excess of one year in a school year due to overtime or working additional assignments is credited to the Defined Benefit Supplement Program so long as it is under the creditable compensation limit. Other compensation, such as allowances, bonuses, cash in-lieu of fringe benefits, limited–period compensation or compensation determined to have been paid to enhance a benefit, are not creditable to any CalSTRS benefit program.
The Plans' provisions and benefits in effect at June 30, 2018, are summarized as follows:

	CalSTRS	
	Before	On or After
Hire Date	January 1, 2013	January 1, 2013
Benefit Formula	2% at 60	2% at 62
Benefit Vesting Schedule	5 Years	5 Years
Benefit Payments	Monthly for Life	Monthly for Life
Retirement Age	50-63	55-65
Monthly benefits, as a % of eligible compensation	2.0% to 2.4%	2.00%
Required employee contribution rates (Average)	10.250%	9.205%
Required employer contribution rates	14.430%	14.430%
Required state contribution rates	9.328%	9.328%

Specific details for the retirement, disability or death benefit calculations for each of the pension plans are available in the CalSTRS Comprehensive Annual Financial Report (CAFR). The CalSTRS' CAFR is available online at http://www.calstrs.com/comprehensive-annual-financial-report.

Contributions – Required member, employer and state contribution rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. Contribution rates are expressed as a level percentage of payroll using the entry age normal actuarial cost method.

For the fiscal year ended June 30, 2018, the contributions were as follows:

	CalSTRS
Contribution – employer	$ 9,697,850
Contribution – state	$ 5,687,172

NOTE 12— PENSION PLANS (continued)

California State Teacher's Retirement System (CalSTRS) (continued)

B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions

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

District's proportionate share of the net pension liability	$ 118,214,471
State's proportionate share of the net pension liability associated with the District	71,711,086
Total	$ 189,925,557

The District's net pension liability is measured as the proportionate share of the net pension liability. The net pension liability is measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 using standard update procedures. 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 plans relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2017, the District's proportion was 0.12783%, which increased by 0.00360%, its proportion measured as of June 30, 2016.

For the fiscal year ended June 30, 2018, the District recognized pension expense of $10,326,443. 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
Difference between expected and actual experience	$ 437,168	$ 2,062,210
Changes of assumptions	21,900,005	-
Changes in proportions	4,921,729	4,003,097
Net difference between projected and actual earning on pension plan investments	-	3,147,477
Differences between District contributions and proportionate share of contributions	7,508,089	-
District contributions subsequent to the measurement date	9,697,850	-
Total	$ 44,464,841	$ 9,212,784

NOTE 12— PENSION PLANS (continued)

California State Teacher's Retirement System (CalSTRS) (continued)

B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (continued)

$9,697,850 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2019. The net difference between projected and actual earnings on plan investments is amortized over a five year period on a straight-line basis. One-fifth is recognized in pension expense during the measurement period and the remaining amount is deferred and will be amortized over the remaining four-year period. The remaining net differences between projected and actual earnings on plan investments shown above represents the unamortized balance relating to the current measurement period and the prior measurement period on a net basis.

All other deferred inflows of resources and deferred outflows of resources are amortized over the Expected Average Remaining Service Life (EARSL) of the plan participants. The EARSL for the STRP for the June 30, 2017 measurement date is 7 years. The first year of amortization is recognized in pension expense for the year the gain or loss occurs. The remaining amounts are deferred and will be amortized over the remaining periods not to exceed 6 years. The remaining amount will be recognized to pension expense as follows:

Fiscal Year Ended June 30	Amount
2019	$ 2,231,884
2020	6,830,322
2021	5,135,020
2022	2,052,095
2023	4,447,100
Thereafter	4,857,786
Total	$ 25,554,207

Actuarial Assumptions – The total pension liabilities in the June 30, 2016 actuarial valuations were determined using the following actuarial assumptions:

	CalSTRS
Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	7.10%
Investment Rate of Return	7.25%
Consumer Price Inflation	2.75%
Wage Growth	3.50%
Post-retirement Benefit Increases	2% simple for DB (Annually) Not applicable for DBS/CBB

CalSTRS uses custom mortality tables to best fit the patterns of mortality among its members. In February 2017, the CalSTRS retirement board changed the mortality assumptions based on the July 1, 2010 through June 30, 2015 Experience Analysis. The projection scale was set to 110% of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table, issued by the Society of Actuaries. For further details, see CalSTRS July 1, 2010 – June 30, 2015 Experience Analysis on the CalSTRS website.

NOTE 12— PENSION PLANS (continued)

California State Teacher's Retirement System (CalSTRS) (continued)

B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (continued)

Actuarial Assumptions (continued)

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

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

*10 year geometric average

Change of Assumptions – In February, 2017, the CalSTRS' Retirement Board voted to change the actuarial assumptions and various economic factors based on the CalSTRS Experience Analysis spanning July 1, 2010 through June 30, 2015. The discount rate was lowered from 7.60% to 7.10%, consumer price inflation rate was lowered from 3.00% to 2.75% and the age growth assumption decreased from 3.75% to 3.50%. These changes were made for the June 30, 2017 actuarial.

Discount Rate – The discount rate used to measure the total pension liability was 7.10 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates in accordance with the rate increases per AB 1469. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.10 percent) and assuming that contributions, benefit payments, and administrative expense occur midyear. Based on those assumptions, the CalSTRS fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

NOTE 12— PENSION PLANS (continued)

California State Teacher's Retirement System (CalSTRS) (continued)

B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (continued)

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the District's proportionate share of the net pension liability, calculated using the discount rate, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

1% Decrease		6.10%
Net Pension Liability	$	173,576,374
Current Discount Rate		7.10%
Net Pension Liability	$	118,214,471
1% Increase		8.10%
Net Pension Liability	$	73,284,536

Pension Plan Fiduciary Net Position —Detailed information about pension plan's fiduciary net position is available in the separately issued CalSTRS financial reports.

C. Payable to the Pension Plan

At June 30, 2018, the District had no amount outstanding for contributions to the pension plan required for the fiscal year ended June 30, 2018.

D. 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 $5,687,172. 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. On behalf payments have been excluded from the calculation of available reserves.

NOTE 12— PENSION PLANS (continued)

California Public Employees' Retirement System (CalPERS)

A. General Information About the Pension Plan

Plan Description - The District also contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Plan membership consists of non-teaching and non-certificated employees of public schools (K-12), community college districts, offices of education, charter and private schools (elective) in the State of California. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

Benefits Provided– The CalPERS Defined Benefit Program has two benefit formulas:

CalPERS 2% at 55: Members first hired on or before December 31, 2012, to perform service that could be creditable to CalPERS.

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

The Defined Benefit Program provides retirement benefits based on members' final compensation, age, and years of service credit. In addition, the retirement program provides benefits to members upon disability and to survivors/beneficiaries upon the death of eligible members.

After earning five years of credited service, members become 100 percent vested in retirement benefits.

A family benefit is available if an active member dies and has at least one year of credited service.

Members' accumulated contributions are refundable with interest upon separation from CalPERS. The board determines the credited interest rate each fiscal year. For the fiscal year ended June 30, 2018, the rate of interest credited to members' accounts was 6 percent.

The member's benefit is reduced dollar for dollar, regardless of age, for the first 180 days after retirement if the member performs activities in the public schools that could be creditable to CalPERS, unless the governing body of the school district takes specified actions with respect to a member who is above normal retirement age.

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

	CalPERS	
	Before	On or After
Hire Date	January 1, 2013	January 1, 2013
Benefit Formula	2% at 55	2% at 62
Benefit Vesting Schedule	5 Years	5 Years
Benefit Payments	Monthly for Life	Monthly For Life
Retirement Age	50-63	52-67
Monthly benefits, as a % of eligible compensation	1.17 - 2.5%	1.0 - 2.5%
Required employee contribution rates (Average)	7.000%	6.500%
Required employer contribution rates	15.531%	15.531%

Specific details for retirement, disability or death benefit calculations for each of the pension plans are available in the CalPERS' Comprehensive Annual Financial Report (CAFR). The CalPERS' CAFR is available online at https://www.calpers.ca.gov/page/forms-publications.

NOTE 12— PENSION PLANS (continued)

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

A. General Information About the Pension Plan (continued)

Contributions – Section 20814 (c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employees be determined on an annual basis by the actuary and shall be effective on July 1 following notice of a change in the rate. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CalPERS. 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 Local Government is required to contribute the difference between the actuarially determined rate of employees.

For the fiscal year ended June 30, 2018, the contributions were as follows:

Contribution - employer	$ 4,789,203

B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2018, the District reported net pension liability for its proportionate shares of the net pension liability in the amount of $54,968,070.

The District's net pension liability is measured as the proportionate share of the net pension liability. The net pension liability is measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 using standard update procedures. 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 plans relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2017, the District's proportion was 0.2303%, which decreased by 0.0007% from its proportion measured as of June 30, 2016.

For the fiscal year ended June 30, 2018, the District recognized pension expense of $9,703,636. 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
Difference between expected and actual experience	$ 1,969,280	$ -
Changes of assumptions	8,028,951	647,181
Changes in proportions	66,540	32,705
Net difference between projected and actual earning on pension plan investments	1,901,519	-
Differences between District contributions and proportionate share of contributions	-	216,229
District contributions subsequent to the measurement date	4,789,203	-
Total	$ 16,755,493	$ 896,115

NOTE 12— PENSION PLANS (continued)

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

B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (continued)

$4,789,203 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2018. The net difference between projected and actual earnings on plan investments is amortized over a five-year period on a straight-line basis. One-fifth is recognized in pension expense during the measurement period and the remaining amount is deferred and will be amortized over the remaining four-year period. The remaining net differences between projected and actual earnings on plan investments shown above represents the unamortized balance relating to the current measurement period and the prior measurement period on a net basis.

All other deferred inflows of resources and deferred outflows of resources are amortized over the expected average remaining service life (EARSL) of the plan participants. The EARSL for the CalPERS Plan for the June 30, 2017 measurement date is 4.0 years. The first year of amortization is recognized in pension expense for the year the gain or loss occurs. The remaining amounts are deferred and will be amortized over the remaining periods not to exceed 3.0 years.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Fiscal Year Ended June 30		Amount
2019	$	3,084,042
2020		5,290,408
2021		3,736,998
2022		(1,041,273)
Total	$	11,070,175

Actuarial Assumptions – The total pension liabilities in the June 30, 2016 actuarial valuations were determined using the following actuarial assumptions:

	CalPERS
Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	7.15%
Investment Rate of Return	7.50%
Consumer Price Inflation	2.75%
Wage Growth	Varies
Post-retirement Benefit Increases	2% until PPPA floor on purchasing power applies, 2.75% thereafter

Change of Assumption - In December 2016, as part of the Asset Liability Management (ALM) review cycle, the CalPERS Board approved to lower the financial reporting discount for PERF B from 7.65% to 7.15%

NOTE 12— PENSION PLANS (continued)

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

B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (continued)

Discount Rate – The discount rate used to measure the total pension liability was 7.15 percent. To determine whether the municipal bond rate should be used in the calculation of the discount rate for public agency plans (including PERF B), CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Base on the testing the plans, the tests revealed the assets would not run out. Therefore, the current 7.15 percent is applied to all plans in the Public Employees Retirement Fund, including PERF B. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB No 68 section.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed February 2022. Any changes to the discount rate will require Board action and proper stockholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2021-22 fiscal years. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimated ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectation's 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 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

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

	CalPERS		
Asset Class	**Strategic Allocation**	**Real Return Years 1-10****	**Real Return Years 11+*****
Global Equity	47%	4.90%	5.38%
Global Fixed Income	19%	0.80%	2.27%
Inflation Sensitive	6%	0.60%	1.39%
Private Equity	12%	6.60%	6.63%
Real Estate	11%	2.80%	5.21%
Infrastructure & Forestland	3%	3.90%	5.36%
Cash/Liquidity	2%	-0.40%	-0.90%
	100%		

**Expected inflation of 2.5%

***Expected inflation of 3.0%

NOTE 12— PENSION PLANS (continued)

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

B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the DiscountRate – The following presents the District's proportionate share of the net pension liability, calculated using the discount rate, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

1% Decrease		6.15%
Net Pension Liability	$	80,875,641
Current Discount Rate		7.15%
Net Pension Liability	$	54,968,070
1% Increase		8.15%
Net Pension Liability	$	33,475,565

Pension Plan Fiduciary Net Position —Detailed information about pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

C. Payable to the Pension Plan

At June 30, 2018, the District had no amount outstanding for contributions to the pension plan required for the fiscal year ended June 30, 2018.

NOTE 13— COMMITMENTS AND CONTINGENCIES

A. Grants

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

B. Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2018.

NOTE 13— COMMITMENTS AND CONTINGENCIES (continued)

C. Construction Commitments

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

	Construction Commitment
Capital Projects	
Measure BB	$ 62,926,567
Measure ES	30,989,904
Total	$ 93,916,471

D. Return of ERAF Property Tax Revenue

For the 2017-18 fiscal year, the Los Angeles County Office of Education (LACOE) has verbally informed the District of a potential to return ERAF property tax revenue for approximately $8.6 million dollars.

As the District is a Basic Aid District in 2017-18, the claim supported by California Revenue & Taxation Code 97.2(D)(2) which states that a portion of ERAF funds are unallowable to Basic Aid Districts:

97.2(D)(2): The auditor shall, based on information provided by the county superintendent of schools pursuant to this paragraph, allocate the proportion of the Educational Revenue Augmentation Fund to those school districts and county offices of education within the county that are not excess tax school entities, as defined in subdivision (n) of Section 95. The county superintendent of schools shall determine the amount to be allocated to each school district and county office of education in inverse proportion to the amounts of property tax revenue per average daily attendance in each school district and county office of education. In no event shall any additional money be allocated from the fund to a school district or county office of education upon that school district or county office of education becoming an excess tax school entity.

http://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?lawCode=RTC&sectionNum=97.2.

As the District is concerned with this claim, we are contracting with School Services of California to validate LACOE's calculation as well as the original request from the Los Angeles County Auditor-Controller.
The District believes that it was the responsibility of LACOE to monitor and validate the original ERAF calculation from the Los Angeles County Auditor-Controller; additionally, LACOE informed the District of this potential return of property tax revenue as this Audit Report for June 30, 2018 was being finalized and published.

NOTE 14— PARTICIPATION IN JOINT POWERS AUTHORITIES

The District is a member of three joint powers authorities (JPAs). The first is the Alliance of Schools for Cooperative Insurance Programs (ASCIP) to provide property and liability insurance coverage, the next is the Schools Excess Liability Fund (SELF) to provide excess property and liability insurance coverage, and the final is the Schools Linked for Insurance Management (SLIM) to provide workers' compensation insurance coverage. The relationship is such that the JPAs are not component units of the District for financial reporting purposes.

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

NOTE 15— DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

Refunded Debt
Pursuant to GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities,* the District recognized deferred outflows of resources in the District-wide financial statements. The deferred outflow of resources pertains to the difference in the carrying value of the refunded debt and its reacquisition price (deferred amount on refunding). Previous financial reporting standards require this to be presented as part of the District's long-term debt. This deferred outflow of resources is recognized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the new debt, whichever is shorter. At June 30, 2018, the deferred amount on refunding was $17,718,625.

NOTE 16 – RESTATEMENT

The District implemented GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits other than Pensions, during fiscal year 2018. The cumulative effect of applying GASB No. 75 has resulted in decrease to the net position at July 1, 2017 as follows:

	Governmental Activities
Net Position (Deficit) at July 1, 2017	$ 42,967,182
Deferred Ouflows of Resources Relate to OPEB	59,238
Net OPEB Obligation	(20,832,144)
Net OPEB Obligation - MPP	(952,179)
Net Position (Deficit) at July 1, 2017, as Restated	$ 21,242,097

NOTE 17— SUBSEQUENT EVENT

For the 2017-18 fiscal year, the District did not issue any General Obligation Bonds. However, The Santa Monica-Malibu Unified School District Board of Education approved and authorized the issuance and sale of General Obligation Bonds for Election 2012, Series D for $120,000,000 at their June 28, 2018 Board of Education meeting; funds were wired in the full amount on September 6, 2018.

REQUIRED SUPPLEMENTARY INFORMATION

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Fiscal Year Ended June 30, 2018

	Budgeted Amounts			Variance with Final Budget Positive
	Original	Final	Actual	(Negative)
Revenues:				
LCFF Sources:				
State apportionments	$ 8,433,987	$ 8,433,987	$ 8,434,187	$ 200
Education protection state aid	2,130,414	2,130,414	2,096,214	(34,200)
Local sources	83,635,852	90,778,188	91,816,954	1,038,766
Federal	4,227,280	4,347,416	4,378,540	31,124
Other state	3,015,655	4,772,658	10,358,283	5,585,625
Other local	51,785,761	52,731,479	53,037,594	306,115
Total revenues	153,228,949	163,194,142	170,121,772	6,927,630
Expenditures:				
Certificated salaries	66,202,485	65,745,800	65,715,527	30,273
Classified salaries	29,587,843	31,008,018	30,863,996	144,022
Employee benefits	38,276,015	42,456,598	43,075,617	(619,019)
Books and supplies	5,015,033	3,565,269	3,539,712	25,557
Contracted services and other operating expenditures	14,501,613	16,525,789	16,431,823	93,966
Capital outlay	830,481	2,389,558	1,759,433	630,125
Other outgo	(582,541)	(829,393)	(495,453)	(333,940)
Debt service				
Principal	90,000	51,483	51,510	(27)
Interest	8,000	1,906	1,878	28
Total expenditures	153,928,929	160,915,028	160,944,043	(29,015)
Excess of revenues over (under) expenditures	(699,980)	2,279,114	9,177,729	6,898,615
Other Financing Sources (Uses):				
Transfers out	(1,442,223)	(2,290,830)	(1,600,000)	690,830
Total other financing sources (uses)	(1,442,223)	(2,290,830)	(1,600,000)	690,830
Net change in fund balance	(2,142,203)	(11,716)	7,577,729	7,589,445
Fund balance - beginning	31,220,583	31,220,583	31,220,583	-
Fund balance - ending	$ 29,078,380	$ 31,208,867	$ 38,798,312	$ 7,589,445

See notes to required supplementary information

SCHEDULE OF CHANGE IN NET OPEB LIABILITY AND RELATED RATIOS
Last 10 Years*
As of June 30, 2018

Employer Fiscal Year End	2017-18
Measurement Period	2017-18[1]
Total OPEB Liability	
Service Cost	$ 2,016,686
Interest on the Total OPEB Liability	1,974,060
Changes of Benefit Terms	-
Difference between Expected and Actual Experience	-
Changes of Assumptions	-
Benefit Payments	(1,445,115)
Net Change in Total OPEB Liability	2,545,631
Total OPEB Liability - Beginning	40,194,946
Total OPEB Liability - Ending	$ 42,740,577
OPEB Fiduciary Net Position	
Contributions from the Employer	$ 2,445,115
Net Investment Income	311,899
Administrative Expenses	(4,176)
Benefit Payments	(1,445,115)
Net Change in Plan Fiduciary Net Position	1,307,723
Plan Fiduciary Net Position - Beginning	4,222,447
Plan Fiduciary Net Position - Ending	$ 5,530,170
Plan Net OPEB Liability - Ending	$ 37,210,407
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	12.94%
Covered Payroll	$ 98,657,614
Net OPEB Liability as a Percentage of Covered-Employee Payroll	37.72%

[1] Historical information is required only for measurement periods for which GASB 75 is applicable.

Notes to Schedule:

Change of Assumptions: There were no changes of assumption.

See notes to required supplementary information

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF NET OPEB LIABILITY
MEDICARE PREMIUM PAYMENT PROGRAM
Last 10 Years*
As of June 30, 2018

Employer Fiscal Year End	June 30, 2018
Measurement Period	June 30, 2017
District's proportion of the net OPEB liability	0.203%
District's proportionate share of the net OPEB liability	$ 855,922
District's covered payroll[1]	N/A
District's proportionate share of the net OPEB liability as a percentage of covered payroll	N/A
Plan's total OPEB liability	$ 420,749,000
Plan's fiduciary net position	$ 41,000
Plan fiduciary net position as a percentage of the total OPEB liability	0.010%

* This is a 10 year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available

[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.

Notes to Schedule:

Change of Assumptions: There have been several changes to the assumptions since the June 30, 2014, valuation. The most significant changes were the reductions in the probabilities of enrollment in the MPP Program, the reduced investment return assumption and an increase in life expectancies.

See notes to required supplementary information

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

SCHEDULE OF CONTRIBUTIONS - OPEB
Last 10 Years*
As of June 30, 2018

	2017-18[1]
Actuarially Determine Contribution	$ 3,657,819
Contributions in Relation to the Actuarially Determined Contribution	2,445,115
Contribution Deficiency (Excess)	$ 1,212,704
Cover Payroll During Fiscal Year	$ 98,657,614
Contributions as a Percentage of Covered Employee Payroll	2.48%

[1] GASB 75 requires this information for plans funding with OPEB trusts be reported in the employer's Required Supplementary Information for 10 years or as many years as are available upon implementation. Fiscal year 2018 was the 1st year of implementation, therefore only one fiscal years are shown.

Notes to Schedule:

Valuation Date	July 1, 2017
Funding method	Entry Age Normal Cost, level percent of pay
Discount Rate	5.00%
Inflation	2.75%
Aggregate payroll Increases	3.00%
Mortality rate	Pre-retirement mortality rates were based on the RP-2014 Employee Mortality Table for Males or Females, as appropriate, without projection. Post-retirement mortality rates were based on the RP-2014 Health Annuitant Mortality Table for Males or Females, as appropriate, without projection.
Healthcare Tread Rate	6.00% for 2016; 5.00% for 2017 and later years

See notes to required supplementary information

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

SCHEDULE OF CONTRIBUTIONS - OPEB
MEDICARE PREMIUM PAYMENT PROGRAM
Last 10 Years*
As of June 30, 2018

	June 30, 2018	June 30, 2017
Contractually required contribution (actuarially determined)	$ 55,171	$ 59,238
Contribution in relation to the actuarially determined contributions	55,171	59,238
Contribution deficiency (excess)	$ -	$ -
Covered payroll[1]	N/A	N/A
Contributions as a percentage of covered payroll	N/A	N/A

* This is a 10 year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available

[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.

Notes to Schedule:

Valuation Date	June 30, 2016
Funding method	Entry Age Normal Cost, level percent of pay
Discount Rate	3.58%
Inflation	2.75%
Aggregate payroll Increases	2.75%
Mortality rate	Custom mortality tables based on RP2000 Series tables issued by the Society of Actuaries
Medicare Part A Premium Costs Trend Rate	3.70%
Medicare Part B Premium Costs Trend Rate	4.10%

See notes to required supplementary information

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF NET PENSION LIABILITY - CALSTRS
Last 10 Fiscal Years*
For the Fiscal Year Ended June 30, 2018

The following table provides required supplementary information regarding the District's CALSTRS Pension Plan.

	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
District's proportion of the net pension liability	0.128%	0.124%	0.132%	0.126%
District's proportionate share of the net pension liability	$ 118,214,471	$ 100,480,053	$ 88,739,307	$ 73,375,330
State's proportionate share of the net pension liability associated with the District	71,711,086	61,767,308	46,933,185	44,307,192
Total	$ 189,925,557	$ 162,247,361	$ 135,672,492	$ 117,682,522
District's covered payroll	$ 67,800,668	$ 63,504,492	$ 60,268,419	$ 57,309,309
District's proportionate share of the net pension liability as percentage of covered payroll	174.36%	158.23%	147.24%	128.03%
Plan's total pension liability	$ 302,770,146,000	$ 269,994,690,000	$ 259,146,248,000	$ 248,910,844,000
Plan's fiduciary net position	$ 210,289,899,995	$ 189,113,486,995	$ 191,822,335,995	$ 190,474,016,000
Plan fiduciary net position as a percentage of the total pension liability	69.46%	70.04%	74.02%	76.52%

* This is a 10 year schedule. However, the information in this schedule is not required to be presented retroactively.
Years will be added to this schedule in future fiscal years until 10 years of information is available

Notes to Schedule:
1) Benefit Changes: In 2015,2016, and 2017 there were no changes to benefits
2) Changes in Assumptions: In 2015,2016, and 2017 there were no changes in assumptions
In 2018, the discount rate was lowered to 7.10%, the growth rate was decreased to 3.50% and inflation was lowered to 2.75%
was lowered to 2.75%.

See notes to required supplementary information

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF NET PENSION LIABILITY - CALPERS
Last 10 Fiscal Years*
For the Fiscal Year Ended June 30, 2018

The following table provides required supplementary information regarding the District's CALPERS Pension Plan.

	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
District's proportion of the net pension liability	0.23030%	0.23100%	0.23300%	0.23100%
District's proportionate share of the net pension liability	$ 54,968,070	$ 45,665,948	$ 34,274,607	$ 26,174,060
District's covered payroll	$ 29,392,792	$ 27,759,137	$ 25,758,704	$ 24,305,768
District's proportionate share of the net pension liability as percentage of covered payroll	187.01%	164.51%	133.06%	107.69%
Plan's total pension liability	$ 84,871,025,628	$ 75,663,026,434	$ 71,651,164,353	$ 68,292,799,349
Plan's fiduciary net position	$ 60,998,386,333	$ 55,912,964,588	$ 56,911,065,643	$ 59,940,364,500
Plan fiduciary net position as a percentage of the total pension liability	71.87%	73.90%	79.43%	87.77%

* This is a 10 year schedule. However, the information in this schedule is not required to be presented retroactively.
Years will be added to this schedule in future fiscal years until 10 years of information is available

Notes to Schedule:
1) Benefit Changes: In 2015 & 2016 there were no changes to benefits
2) Changes in Assumptions: In 2015 there were no changes in assumptions. In 2016 the discount rate was changed from 7.5% to 7.65% to correct for an adjustment to exclude administrative expense. In 2018, the discount rate was lowered to 7.15%.

See notes to required supplementary information

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

SCHEDULE OF PENSION CONTRIBUTIONS - CALSTRS
Last 10 Fiscal Years*
For the Fiscal Year Ended June 30, 2018

The following table provides required supplementary information regarding the District's CALSTRS Pension Plan.

	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Contractually required contribution (actuarially determined)	$ 9,697,850	$ 8,529,324	$ 6,814,032	$ 5,351,837
Contribution in relation to the actuarially determined contributions	(9,697,850)	(8,529,324)	(6,814,032)	(5,351,837)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Covered payroll	$ 67,206,168	$ 67,800,668	$ 63,504,492	$ 60,268,419
Contributions as a percentage of covered payroll	14.430%	12.580%	10.730%	8.880%

* This is a 10 year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available

Notes to Schedule:

Valuation Date	6/30/2014
Methods and assumptions used to determine contribution rates:	
Actuarial cost method	Entry Age
Asset valuation method	Expected value with 33% adjustment to market value
Amortization method	The unfunded actuarial accrued liability is amortized over an open 30 year period as a level percentage of payroll
Discount rate	7.60%
Amortization growth rate	3.75%
Price inflation	3.00%
Salary increases	3.75%
Mortality	Sex distinct RP-2000 Combined Mortality projected to 2010 using Scale AA with a 2 year setback for males and a 4 year setback for females.
Valuation Date	6/30/2017
Discount rate	7.35%
Amortization growth rate	3.50%
Price inflation	2.75%
Valuation Date	6/30/2018
Discount rate	7.10%

See notes to required supplementary information

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

SCHEDULE OF PENSION CONTRIBUTIONS - CALPERS
Last 10 Fiscal Years*
For the Fiscal Year Ended June 30, 2018

The following table provides required supplementary information regarding the District's CALPERS Pension Plan.

	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Contractually required contribution (actuarially determined)	$ 4,789,203	$ 4,082,071	$ 3,288,625	$ 3,032,060
Contribution in relation to the actuarially determined contributions	(4,789,203)	(4,082,071)	(3,288,625)	(3,032,060)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Covered payroll	$ 30,836,411	$ 29,392,792	$ 27,759,137	$ 25,758,704
Contributions as a percentage of covered payroll	15.531%	13.888%	11.847%	11.771%

* This is a 10 year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available

Notes to Schedule:

Valuation Date	6/30/2014
Methods and assumptions used to determine contribution rates:	
Actuarial cost method	Entry Age
Asset valuation method	5-year smoothed market
Amortization method	The unfunded actuarial accrued liability is amortized over an open 17 year period as a level percentage of payroll
Discount rate	7.500%
Amortization growth rate	3.75%
Price inflation	3.25%
Salary increases	3.75% plus merit component based on employee classification and years of service
Mortality	Sex distinct RP-2000 Combined Mortality projected to 2010 using Scale AA with a 2 year setback for males and a 4 year setback for females
Valuation Date	6/30/2015
Discount Rate	7.65%
Valuation Date	6/30/2017
Discount rate	7.375%
Valuation Date	6/30/2018
Discount rate	7.150%

See notes to required supplementary information

NOTE 1- PURPOSE OF SCHEDULES

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

Schedule of Changes in Net OPEB Liability and Related Ratios
The schedule presents the beginning balances of the total OPEB liability, the OPEB plan’s fiduciary net position, the Net OPEB liability, the effects during the period, the ending balances of the total OPEB liability, the OPEB plan’s fiduciary net position, and the Net OPEB liability, the covered-employee payroll, and the net OPEB liability as a percentage of covered-employee payroll. In the future, as data becomes available, 10 years of information will be presented.

Schedule of the District’s Proportionate Share of the Net OPEB Liability
The schedule presents the District’s proportion (percentage) of the collective net OPEB liability, the employer’s proportionate share (amount) of the collective net OPEB liability, the District’s covered-employee payroll, the District’s proportionate share (amount) of the collective net OPEB liability as a percentage of the total OPEB liability. In the future, as data becomes available, 10 years of information will be presented.

Schedule of OPEB Contributions
The schedule presents the District's statutorily or contractually required employer contribution, the amount of contributions recognized by the OPEB plan in relation to the statutorily or contractually required employer contribution, the difference between the statutorily or contractually required employer contribution and the amount of contributions recognized by the OPEB plan in relation to the statutorily or contractually required employer contribution, the District's covered-employee payroll, and the amount of contributions recognized by the OPEB plan in relation to the statutorily or contractually required employer contribution as a percentage of the District's covered-employee payroll. In the future, as data becomes available, 10 years of information will be presented.

Schedule of the District's Proportionate Share of the Net Pension Liability
The schedule presents the District's proportion (percentage) of the collective net pension liability, the District's proportionate share (amount) of the collective net pension liability, the District's covered-employee payroll, the District's proportionate share (amount) of the collective net pension liability as a percentage of the employer's covered-employee payroll, and the pension plan's fiduciary net position as a percentage of the total pension liability. In the future, as data becomes available, 10 years of information will be presented.

Schedule of District Contributions
The schedule presents the District's statutorily or contractually required employer contribution, the amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution, the difference between the statutorily or contractually required employer contribution and the amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution, the District's covered-employee payroll, and the amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution as a percentage of the District's covered-employee payroll. In the future, as data becomes available, 10 years of information will be presented.

NOTE 2- EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the fiscal year ended June 30, 2018, excess of expenditures over appropriations, by major object accounts, occurred in the General Fund as follows:

Employee benefits	$619,019
Other outgo	$333,940

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SUPPLEMENTARY INFORMATION

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
June 30, 2018

	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund
Assets				
Cash and investments	$ 672,398	$ 915,201	$ 426,034	$ 675,981
Accounts receivable	24,395	738,514	43,517	4,673
Stores inventories	-	-	38,974	-
Total assets	$ 696,793	$ 1,653,715	$ 508,525	$ 680,654
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	$ 32,446	$ 628,252	$ 131,181	$ 111,721
Unearned revenue	-	219,535	-	-
Total liabilities	32,446	847,787	131,181	111,721
Fund balances:				
Nonspendable				
Store inventories	-	-	38,974	-
Restricted				
Adult education	368,106	-	-	-
Child development	-	105,913	-	-
Nutrition	-	-	338,370	-
Capital projects	-	-	-	-
Committed				
Deferred maintenance	-	-	-	568,933
Assigned				
Adult education	296,241	-	-	-
Child development	-	700,015	-	-
Total fund balances	664,347	805,928	377,344	568,933
Total liabilities and fund balances	$ 696,793	$ 1,653,715	$ 508,525	$ 680,654

Capital Facilities Fund	Special Reserve Fund For Capital Outlay Projects	Total Nonmajor Governmental Funds
$ 3,396,488	$ 16,155,979	$ 22,242,081
481,309	57,268	1,349,676
-	-	38,974
$ 3,877,797	$ 16,213,247	$ 23,630,731
$ 12,949	$ 571,928	$ 1,488,477
-	-	219,535
12,949	571,928	1,708,012
-	-	38,974
-	-	368,106
-	-	105,913
-	-	338,370
3,864,848	15,641,319	19,506,167
-	-	568,933
-	-	296,241
-	-	700,015
3,864,848	15,641,319	21,922,719
$ 3,877,797	$ 16,213,247	$ 23,630,731

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Fiscal Year Ended June 30, 2018

	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund
Revenues:				
Federal	$ 37,623	$ 1,808,333	$ 1,206,627	$ -
Other state	703,790	3,254,959	76,286	-
Other local	18,755	4,487,314	1,243,225	261,521
Total revenues	760,168	9,550,606	2,526,138	261,521
Expenditures:				
Certificated salaries	269,973	3,056,522	-	-
Classified salaries	153,094	2,325,647	1,438,429	-
Employee benefits	158,514	2,439,376	579,108	-
Books and supplies	104,585	105,661	1,250,975	-
Contracted services and other operating expenditures	36,579	842,641	(264,785)	1,060,395
Capital outlay	-	-	-	-
Other outgo	37,452	375,429	157,696	-
Debt service				
Principal	-	-	-	-
Interest	-	-	-	-
Total expenditures	760,197	9,145,276	3,161,423	1,060,395
Excess of revenues over (under) expenditures	(29)	405,330	(635,285)	(798,874)
Other Financing Sources (Uses):				
Transfers in	-	-	900,000	700,000
Total other financing sources (uses)	-	-	900,000	700,000
Net change in fund balances	(29)	405,330	264,715	(98,874)
Fund balance - beginning	664,376	400,598	112,629	667,807
Fund balance - ending	$ 664,347	$ 805,928	$ 377,344	$ 568,933

	Capital Facilities Fund	Special Reserve Fund For Capital Outlay Projects	Total Nonmajor Governmental Funds
	$ -	$ -	$ 3,052,583
	-	2,262,996	6,298,031
	1,902,702	11,434,648	19,348,165
	1,902,702	13,697,644	28,698,779
	-	-	3,326,495
	-	-	3,917,170
	-	-	3,176,998
	-	13,130	1,474,351
	295,588	355,803	2,326,221
	-	5,683,400	5,683,400
	-	-	570,577
	-	1,695,000	1,695,000
	-	168,824	168,824
	295,588	7,916,157	22,339,036
	1,607,114	5,781,487	6,359,743
	-	-	1,600,000
	-	-	1,600,000
	1,607,114	5,781,487	7,959,743
	2,257,734	9,859,832	13,962,976
	$ 3,864,848	$ 15,641,319	$ 21,922,719

ORGANIZATION
June 30, 2018

The Santa Monica-Malibu Unified School District (the "District") was established in 1875. The District's boundaries encompass all of the City of Santa Monica and part of the Los Angeles County from the Ventura County line on the west: the Malibu area to approximately the top of the Santa Monica Mountains on the north. The boundaries exclude those portions of the north section that are included in the Las Virgenes Unified School District and those portions of Pacific Palisades that are included in the Los Angeles Unified School District. There were no changes in the boundaries of the District during the current fiscal year. The District is currently operating ten elementary schools, two middle schools, two high schools, one continuation school, one alternative school, one adult education center, and fifteen child care and development centers.

BOARD OF EDUCATION

MEMBER	OFFICE	TERM EXPIRES
Richard Tahvildaran-Jesswien	President	December, 2018
Jon Kean	Vice President	December, 2020
Oscar de la Torre	Member	December, 2018
Craig Foster	Member	December, 2018
Laurie Lieberman	Member	December, 2018
Maria Leon-Vazquez	Member	December, 2020
Ralph Mechur	Member	December, 2020

SUPERINTENDENT

Ben Drati

ADMINISTRATION

Melody Canady, Assistant Superintendent, Business and Fiscal Services,

Jacqueline Mora, Assistant Superintendent of Educational Services

Mark Kelly, Assistant Superintendent of Human Resources

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

SCHEDULE OF AVERAGE DAILY ATTENDANCE
For Fiscal Year Ended June 30, 2018

	Second Period Report	Revised Second Period Report	Annual Report
SCHOOL DISTRICT			
TK/K through Third			
Regular ADA	2,897.07	2,898.86	2,902.60
Extended Year Special Education	5.09	5.09	5.09
Special Education - Nonpublic Schools	0.85	0.83	0.81
Extended Year Special Education - Nonpublic Schools	0.03	0.03	0.03
Total TK/K through Third	2,903.04	2,904.81	2,908.53
Fourth through Sixth			
Regular ADA	2,456.17	2,455.99	2,456.99
Extended Year Special Education	6.29	6.29	6.29
Special Education - Nonpublic Schools	1.98	1.88	2.07
Extended Year Special Education - Nonpublic Schools	0.13	0.13	0.13
Total Fourth through Sixth	2,464.57	2,464.29	2,465.48
Seventh and Eighth			
Regular ADA	1,601.96	1,602.10	1,605.68
Extended Year Special Education	2.19	2.19	2.19
Special Education - Nonpublic Schools	5.90	5.98	5.92
Extended Year Special Education - Nonpublic Schools	0.42	0.42	0.42
Total Seventh and Eighth	1,610.47	1,610.69	1,614.21
Ninth through Twelfth			
Regular ADA	3,306.97	3,306.12	3,288.88
Extended Year Special Education	4.32	4.32	4.32
Special Education - Nonpublic Schools	11.49	12.32	11.99
Extended Year Special Education - Nonpublic Schools	0.83	0.83	0.83
Total Ninth through Twelfth	3,323.61	3,323.59	3,306.02
TOTAL SCHOOL DISTRICT	10,301.69	10,303.38	10,294.24

Average daily attendance 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.

There were no audit findings which resulted in necessary revisions to attendance.

See accompanying note to supplementary information.

SCHEDULE OF INSTRUCTIONAL TIME
For Fiscal Year Ended June 30, 2018

Grades	Ed Code 46207 Minutes Requirement	2017-18 Actual Minutes	Number of Days Traditional Calendar	Status
Kindergarten	36,000	42,450	180	In Compliance
Grade 1	50,400	53,620	180	In Compliance
Grade 2	50,400	53,620	180	In Compliance
Grade 3	50,400	54,540	180	In Compliance
Grade 4	54,000	55,020	180	In Compliance
Grade 5	54,000	55,020	180	In Compliance
Grade 6	54,000	59,100	180	In Compliance
Grade 7	54,000	59,810	180	In Compliance
Grade 8	54,000	59,810	180	In Compliance
Grade 9	64,800	65,160	180	In Compliance
Grade 10	64,800	65,160	180	In Compliance
Grade 11	64,800	65,160	180	In Compliance
Grade 12	64,800	65,160	180	In Compliance

Districts must maintain their instructional minutes as defined in Education Code Section 46207.

The District has received incentive funding for increasing instructional time as provided by the Incentive for Longer Instructional Day. This schedule presents information on the amount of instruction time offered by the District and whether the District complied with the provisions of Education Code Sections 46200 through 46206. The District met or exceeded its targeted funding.

See accompanying note to supplementary information.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
For Fiscal Year Ended June 30, 2018

	(Budget) 2019	2018	2017	2016
General Fund - Budgetary Basis				
Revenues And Other Financing Sources	$ 162,633,791	$ 170,121,772	$ 151,639,294	$ 147,277,469
Expenditures And Other Financing Uses	163,596,842	162,544,043	158,226,132	144,944,517
Net Change in Fund Balance	$ (963,051)	$ 7,577,729	$ (6,586,838)	$ 2,332,952
Ending Fund Balance	$ 37,835,261	$ 38,798,312	$ 31,220,583	$ 37,807,421
Available Reserves*	$ 10,287,740	$ 7,464,493	$ 4,746,784	$ 4,348,336
Available Reserves As A Percentage of Outgo	6.29%	4.59%	3.00%	3.00%
Long-term Debt	$ 608,194,965	$ 638,341,301	$ 613,829,709	$ 537,926,459
Average Daily Attendance At P-2	9,856	10,303	10,476	10,705

The General Fund fund balance has increased by $990,891 over the past two fiscal years. The fiscal year 2018-19 budget projects a decrease of $963,051. For a District this size, the State recommends available reserves of at least three percent of General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in two of the past three fiscal years but anticipates incurring an operating deficit during the 2018-19 fiscal year. Total long-term obligations have increased by $100,414,842 over the past two fiscal years.

Average daily attendance (ADA) has decreased by 402 over the past two fiscal years. A decrease of 447 ADA is anticipated during the 2018-19 fiscal year.

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

See accompanying note to supplementary information.

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2018

Federal Grantor/Pass-Through Grantor/Program or Cluster	CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
U. S. DEPARTMENT OF EDUCATION:			
Passed through California Department of Education:			
Title I, Part A			
Title I, Part A, Basic School Support	84.010	14416	$ 994,550
Title I, Part G, Advanced Placement Test Fee Reimbursement Program	84.330	14831	3,804
Adult Education			
Adult Education: Basic Education & ESL	84.002A	14508	26,565
Adult Education: Adult Secondary Education	84.002A	13978	11,058
Subtotal Adult Education			37,623
Title II, Part A, Teacher Quality	84.367	14341	200,178
Title III			
Title III, Limited English Proficient (LEP) Student Program	84.365	14346	107,803
Title III, Immigrant Education Program	84.365	15146	(761)
Subtotal Title III			107,042
Special Education Cluster			
IDEA Basic Local Assistance Entitlement, Part B, Private School ISPs	84.027	10115	75,004
IDEA Basic Local Assistance Entitlement, Part B, Sec 611	84.027	13379	2,044,295
Part B, Preschool Grants	84.173	13430	59,385
IDEA Preschool Local Entitlement, Part B, Sec 611	84.027A	13682	162,096
Subtotal Special Education Cluster			2,340,780
IDEA Early Intervention Grants	84.181	23761	59,099
Vocational Programs: Voc & Appl Tech Secondary II C, Sec 131	84.048	14893	51,634
Total U. S. Department of Education			3,794,710
U. S. DEPARTMENT OF AGRICULTURE:			
Passed through California Department of Education:			
Child Nutrition Cluster			
School Breakfast Program Basic **[1]**	10.553	13390	3,202
School Breakfast Program Needy **[1]**	10.553	13526	156,897
National School Lunch Program **[1]**	10.555	13391	892,460
Subtotal Child Nutrition Cluster			1,052,559
USDA Commodities	10.565	*	154,068
Child and Adult Food Programs	10.578	13393	228,231
Total U. S. Department of Agriculture			1,434,858
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
Passed through California Department of Health Services:			
Medicaid			
Medi-Cal Billing Option	93.778	10013	337,710
Medi-Cal Administrative Activities	93.778	10060	283,743
Subtotal Medicaid			621,453
Passed through California Department of Education:			
Head Start **[1] [2]**	93.600	10016	1,579,882
Head Start Training and Technical Review **[1] [2]**	93.600	10016	220
Total U. S. Department of Health & Human Services			2,201,555
Total Federal Expenditures			$ 7,431,123

[1] - Major Program
[2] - In-Kind Contribution - $618,254
***** - Pass-Through Entity Identifying Number not available or not applicable

See accompanying note to supplementary information

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SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

RECONCILIATION OF UNAUDITED ACTUALS WITH
AUDITED FINANCIAL STATEMENTS
June 30, 2018

	General Fund	Adult Education Fund	Child Development Fund	Cafeteria Fund
June 30, 2018, unaudited actual fund balances	$ 38,798,312	$ 664,347	$ 805,928	$ 377,344
June 30, 2018, audited financial statements fund balances	$ 38,798,312	$ 664,347	$ 805,928	$ 377,344

	Bond Interest and Redemption Fund
June 30, 2018, unaudited actual fund balances/net position	$ 42,183,382
June 30, 2018, audited financial statements fund balances/net position	$ 42,183,382

This schedule provides the information necessary to reconcile the fund balances/net position of all funds on the unaudited actual to the audited financial statements.

Deferred Maintenance Fund	Building Fund	Capital Facilities Fund	Special Reserve Fund for Capital Outlay
$ 568,933	$ 58,773,234	$ 3,864,848	$ 15,641,319
$ 568,933	$ 58,773,234	$ 3,864,848	$ 15,641,319

NOTE 1 – PURPOSE OF SCHEDULES

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 apportionment of state funds are made to school districts. This schedule provides information regarding the attendance of students at various grade levels in different programs.

Schedule of Instructional Time
This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of *Education Code Sections* 46200 through 46208.

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

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

The following schedule provides reconciliation between revenues reported on the Statement of Revenue, Expenditures, and Changes in Fund Balance, and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts represent Federal funds that have been recorded as revenues in a prior year that have been expended by June 30, 2018 or Federal funds that have been recorded as revenues in the current year and were not expended by June 30, 2018.

The District 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.

	CFDA Number	Amount
Total Federal Revenues reported in the Statement of Revenues,		
Expenditures, and, Changes in Fund Balance		$ 9,717,280
Build America Bonds	*	(2,286,157)
Total Expenditures reported in the Schedule of		
Expenditures of Federal Awards		$ 7,431,123

* - *CFDA Number not available or not applicable*

Reconciliation of Unaudited Actuals with Audited Financial Statements
This schedule provides information necessary to reconcile the fund balance of all funds reported on the Annual Financial and Budget Report Unaudited Actuals to the audited financial statements.

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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
Santa Monica-Malibu Unified School District
Santa Monica, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, the discretely presented component unit, and the aggregate remaining fund information of the Santa Monica-Malibu Unified School District (the "District"), as of and for the fiscal year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 8, 2018. Our report includes a reference to other auditors who audited the financial statements of the Santa Monica-Malibu Education Foundation, as described in our report on Santa Monica-Malibu Unified School District's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the Santa Monica-Malibu Education Foundation were not audited in accordance with Government Auditing Standards and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with this entity.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 that are required to be reported under *Government Auditing Standards.*

We noted certain matters that were reported to management of Santa Monica-Malibu Unified School District in a separate letter dated December 8, 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Moss, Levy & Hartzheim, LLP
Culver City, CA
December 8, 2018

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INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
Santa Monica-Malibu Unified School District
Santa Monica, California

Report on State Compliance

We have audited the Santa Monica-Malibu Unified School District's (the "District") compliance with the types of compliance requirements described in *2017-2018 Guide for Annual Audits of California K-12 Local Educational Agencies and State Compliance Reporting* prescribed by Title 5, *California Code of Regulations,* Section 19810, that could have a direct and material effect on each of the District's state programs identified below for the fiscal year ended June 30, 2018.

Management's Responsibility for State Compliance

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the *2017-2018 Guide for Annual Audits of California K-12 Local Educational Agencies and State Compliance Reporting* prescribed by Title 5, *California Code of Regulations,* Section 19810. Those standards and audit guide 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 direct and material effect on the state programs noted below occurred. An audit includes examining, on a test basis, evidence about the 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. Our audit does not provide a legal determination of the District's compliance with those requirements.

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

Description	Procedures Performed
LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOL:	
Attendance accounting	
Attendance reporting	Yes
Teacher certification and misassignments	Yes
Kindergarten continuance	Yes
Independent study	No, see below
Continuation education	No, see below

Description	Procedures Performed
Instructional time	Yes
Instructional materials	Yes
Ratios of administrative employees to teachers	Yes
Classroom teacher salaries	Yes
Early retirement incentive	Not Applicable
Gann limit calculation	Yes
School accountability report card	Yes
Juvenile court schools	Not Applicable
Middle or early college high schools	Not Applicable
K-3 grade span adjustment	Yes
Transportation maintenance of effort	Yes
Apprenticeship, Related and Supplemental Instruction	Not Applicable
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS:	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After school education and safety program	
After school	Not Applicable
Before school	Not Applicable
General requirements	Not Applicable
Proper expenditures of education protection account funds	Yes
Unduplicated local control funding pupil counts	Yes
Local control and accountability plan	Yes
Independent study-course based	Not Applicable

We did not perform testing of independent study or continuation education because the average daily attendance claimed is below the materiality threshold required for testing.

Opinion on State Compliance

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that are applicable to the statutory requirements listed in the schedule above for the fiscal year ended June 30, 2018.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, not to provide an opinion of all the effectiveness of the entity's internal control or on compliance outside of the items tested as noted above. This report is an integral part of an audit performed in accordance with the *2017-2018 Guide for Annual Audits of California K-12 Local Educational Agencies and State Compliance Reporting* prescribed by Title 5, *California Code of Regulations,* Section 19810 in considering the entity's compliance. Accordingly, this communication is not suitable for any other purpose.

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim, LLP
Culver City, California
December 8, 2018

The term "not applicable" is used above to mean either the District did not offer the program during the current fiscal year or the program applies to a different type of local education agency.

MOSS, LEVY & HARTZHEIM LLP
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INDPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY UNIFORM GUIDANCE

Governing Board
Santa Monica-Malibu Unified School District
Santa Monica, California

Report on Compliance for Each Major Federal Program

We have audited the Santa Monica-Malibu 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 the District's major federal programs for the fiscal year ended June 30, 2018. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

Opinion on Each Major Federal Program

In our opinion, the 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 major federal program for the fiscal year ended June 30, 2018.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2018-001 and 2018-002. Our opinion on each major federal program is not modified with respect to these matters.

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

Report on Internal Control over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2018-001, that we consider to be material weaknesses. We also did identify deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2018-002, that we consider to be significant deficiency.

The District's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim, LLP
Culver City, CA
December 8, 2018

FINDINGS AND RECOMMENDATIONS SECTION

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued	Unmodified			
Internal control over financial reporting:				
Material weaknesses identified		Yes	X	No
Significant deficiencies identified not considered to be material weaknesses		Yes	X	None reported
Noncompliance material to financial statements noted		Yes	X	No

Federal Awards

Internal control over major programs:				
Material weaknesses identified	X	Yes		No
Significant deficiencies identified not considered to be material weaknesses	X	Yes		None reported
Type of auditor's report issued on compliance for major programs:	Unmodified			
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance, 2 CFR 200.516 (a)		Yes	X	No

Identification of major programs

CFDA Number (s)	Name of Federal Program/Cluster
10.553, 10.555	Child Nutrition Cluster
93.600	Head Start

Dollar threshold used to distinguish between Type A and Type B programs:	$ 750,000			
Auditee qualified as low-risk auditee:	X	Yes		No

State Awards

Any audit findings disclosed that are required to be reported in accordance with Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting		Yes	X	No
Type of auditor's report issued on compliance for state programs:	Unmodified			

Section II – Financial Statement Findings
None reported.

Section III – Federal Award Findings and Questioned Costs

Finding 2018-001
The District did not have adequate internal controls to ensure compliance with time and effort requirements.
50000

CFDA Number and Title: 10.553 School Breakfast Program, 10.555 National School Lunch Program
Federal Grantor Name: U.S. Department of Agriculture
Federal Award/Contract Number: NA
Pass-through Entity Name: California Department of Education
Pass-through Award/Contract Number: 13390,13391, 13396
Compliance Requirement – Allowable Costs/Cost Principles
Questioned Cost Amount: $0

Description of the Condition:
In fiscal year 2017-2018, the District spent $3,161,423 in its Child Nutrition program. Of the amount spent, Federal reimbursement was $1,052,559. Of the $3,161,423 total amount spent, $2,017,537 was used to pay salaries and benefits. We reviewed payroll transactions to determine whether the District retained adequate time and effort documentation for salaries and benefits charged to federal grants, as required by the granting agency. Depending on the number and type of activities an employee works on, documentation can be a semi-annual certification or monthly personnel activity report, such as a timesheet. Our audit found that the District did not design an effective process to monitor employees whose positions were funded with federal grant funds to ensure all required time and effort documentation were completed and retained. We consider this deficiency in internal controls to be a material weakness.

Cause of Condition
The Program Director position responsible for time and effort documents was not filled by the District until January 2018. The District cannot find the time and effort documentation to support time worked on the program.

Effect of Condition and Questioned Costs
Without proper time and effort documentation, federal grantors cannot be assured salaries and benefits charged to their programs are accurate and valid. The District's noncompliance with grant requirements can jeopardize future federal funding and may require it to return federal funds to the grantor. Our audit found that the District was unable to provide required time and effort documentation for all employees who were fully funded through this program. We verified that these employees worked entirely on the Nutrition program; therefore, we are not questioning costs.

Recommendation
We recommend the District improve its monitoring process to ensure all employees paid through federal grants submit required documentation to support time worked.

District's Response
The District concurs with the finding. Our new Program Director has designed and implemented procedures that will ensure that all employees paid through federal grants submit required documentation to support time worked in compliance with the Standards for Charging Employee Compensation to Federal Grants.

Auditor's Remarks
We appreciate the District's commitment to resolving the issue. We will review the condition during our next audit.

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2018-002
The District did not have adequate internal controls to ensure compliance with eligibility requirements.
50000

CFDA Number and Title: 10.553 School Breakfast Program, 10.555 National School Lunch Program
Federal Grantor Name: U.S. Department of Agriculture
Federal Award/Contract Number: NA
Pass-through Entity Name: California Department of Education
Pass-through Award/Contract Number: 13390,13391, 13396
Compliance Requirement – Eligibility
Questioned Cost Amount: $0

Description of the Condition:
During our test of income verification, we noted 2 out of 10 verifications were incorrectly stated after the applicant submitted income verification. Students were not reported under the correct status.

Cause of Condition
The Program Director position was not filled by the District until January 2018. The District cannot find another personnel to verify the correct status.

Effect of Condition and Questioned Costs
District's aid received from students receiving free or reduced meals may not be correct. The questioned costs are less than $10,000.

Recommendation
We recommend the District establish procedures to ensure that when a change in application status occurs, lunch code within their software is changed in conjunction with this change.

District's Response
The District concurs with the finding. Our new Program Director has designed and implemented procedures that will ensure that when a change in application status occurs, lunch code within the software is changed in conjunction with the change.

Auditor's Remarks
We appreciate the District's commitment to resolving the issue. We will review the condition during our next audit.

Section IV – State Award Findings and Questioned Costs
None reported.

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
June 30, 2018

Section II – Financial Statement Findings
There were no financial statement findings in the prior fiscal year.

Section III – Federal Award Findings and Questioned Costs
There were no federal award findings in the prior fiscal year.

Section IV – State Award Findings and Questioned Costs
There were no state award findings in the prior fiscal year.

Section II – Financial Statement Findings

None reported.

Section III – Federal Award Findings

Finding 2018-001
The District did not have adequate internal controls to ensure compliance with time and effort requirements.
50000

> **CFDA Number and Title: 10.553 School Breakfast Program, 10.555 National School Lunch Program**
> **Federal Grantor Name: U.S. Department of Agriculture**
> **Federal Award/Contract Number: NA**
> **Pass-through Entity Name: California Department of Education**
> **Pass-through Award/Contract Number: 13390,13391, 13396**
> **Compliance Requirement – Allowable Costs/Cost Principles**
> **Questioned Cost Amount: $0**

Management's or Department's Response:

We concur.

Views of Responsible Officials and Corrective Action:

The District concurs with the finding. Our new Program Director has designed and implemented procedures that will ensure that all employees paid through federal grants submit required documentation to support time worked in compliance with the Standards for Charging Employee Compensation to Federal Grants.

Name of Responsible Person: Richard Marchini, Director of Food Services

Implementation Date: February 2019

Finding 2018-002
The District did not have adequate internal controls to ensure compliance with eligibility requirements.
50000

> **CFDA Number and Title: 10.553 School Breakfast Program, 10.555 National School Lunch Program**
> **Federal Grantor Name: U.S. Department of Agriculture**
> **Federal Award/Contract Number: NA**
> **Pass-through Entity Name: California Department of Education**
> **Pass-through Award/Contract Number: 13390,13391, 13396**
> **Compliance Requirement – Eligibility**
> **Questioned Cost Amount: $0**

Management's or Department's Response:

We concur.

Views of Responsible Officials and Corrective Action:

The District concurs with the finding. Our new Program Director has designed and implemented procedures that will ensure that when a change in application status occurs, lunch code within the software is changed in conjunction with the change.

Name of Responsible Person: Richard Marchini, Director of Food Services

Implementation Date: February 2019

Section IV – State Award Findings
None reported.

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Governing Board
Santa Monica-Malibu Unified School District
Santa Monica, California

In planning and performing our audit of the financial statements of Santa Monica-Malibu Unified School 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 8, 2018 on the government-wide financial statements of the District.

2017-2018 Observation and Recommendation

We recommend the District implement the following:

1. Evaluate projects on a comprehensive basis prior to issuing requests for proposals, qualifications, quotes, or services. The scope of work should not significantly change, otherwise a new request should be generated rather than issuing multiple change orders, which bypass the required detailed selection process.
2. All bids for future projects must be received at the District's office and not received by the consultant. Segregation of duties should be paramount.

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim, LLP
Culver City, CA
December 8, 2018