

SANTA MARIA JOINT UNION HIGH SCHOOL DISTRICT

AUDIT REPORT
JUNE 30, 2017

San Diego

Los Angeles

San Francisco
Bay Area

christywhite
A PROFESSIONAL
ACCOUNTANCY CORPORATION *associates*

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 FOR THE YEAR ENDED JUNE 30, 2017**

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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Governing Board
Santa Maria Joint Union High School District
Santa Maria, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Santa Maria Joint Union High School District, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Santa Maria Joint Union High School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

Christy White, CPA

Michael Ash, CPA

Heather Rubio

SAN DIEGO
LOS ANGELES
SAN FRANCISCO/BAY AREA

Corporate Office:
348 Olive Street
San Diego, CA 92103

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

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State Board of Accountancy*

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Santa Maria Joint Union High School District, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2017 on our consideration of Santa Maria Joint Union High School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Santa Maria Joint Union High School District's internal control over financial reporting and compliance.

Chudy White Associates

San Diego, California
November 20, 2017

SANTA MARIA JOINT UNION HIGH SCHOOL DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

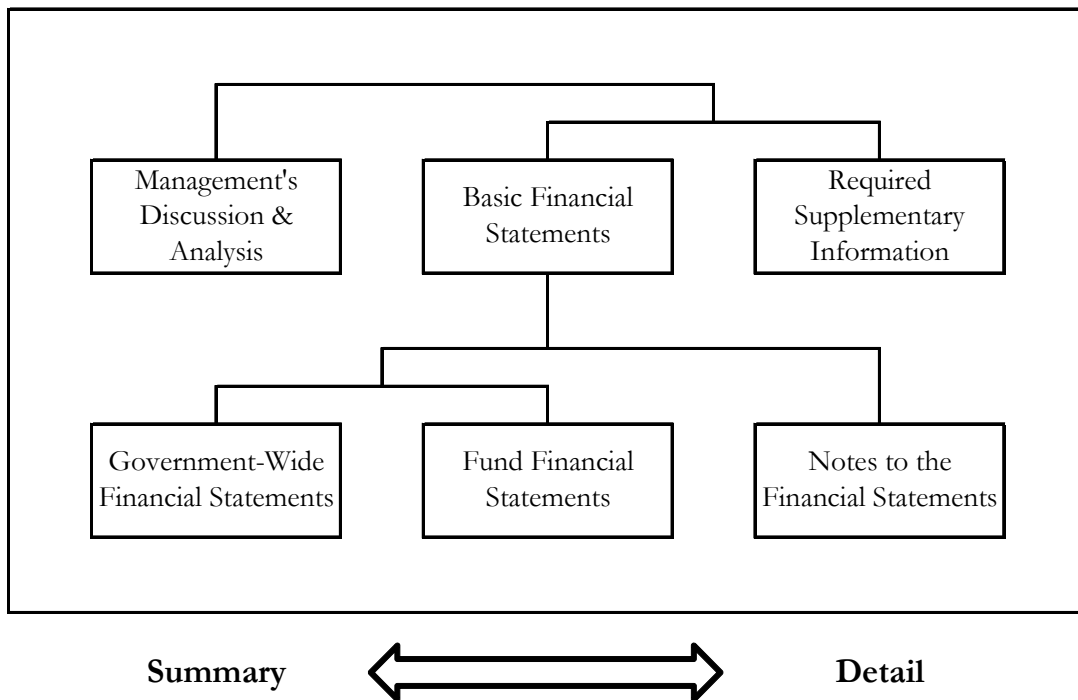
This discussion and analysis of Santa Maria Joint Union High School District (District) financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2017. It should be read in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- Total net position was \$28,257,671 at June 30, 2017. This was an increase of \$2,380,290 from the prior year.
- Overall revenues were \$111,831,469 which exceeded expenses of \$109,451,179.
- Total capital assets increased by \$8,107,883.
- Outstanding long-term debt increased by \$4,711,757, primarily due to an increase in net pension liability.

OVERVIEW OF FINANCIAL STATEMENTS

Components of the Financials Section



**SANTA MARIA JOINT UNION HIGH SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, *continued*
FOR THE YEAR ENDED JUNE 30, 2017**

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.

**SANTA MARIA JOINT UNION HIGH SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2017**

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE

Net Position

The District's total net position was \$28,257,671 at June 30, 2017. Of this amount, (\$71,916,904) was unrestricted. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the Governing Board's ability to use that net position for day-to-day operations.

	Governmental Activities		
	2017	2016	Net Change
ASSETS			
Current and other assets	\$ 64,697,802	\$ 70,157,762	\$ (5,459,960)
Capital assets	143,747,223	135,639,340	8,107,883
Total Assets	208,445,025	205,797,102	2,647,923
DEFERRED OUTFLOWS OF RESOURCES	25,615,410	17,628,462	7,986,948
LIABILITIES			
Current liabilities	14,032,395	12,209,816	1,822,579
Long-term liabilities	182,681,345	177,969,588	4,711,757
Total Liabilities	196,713,740	190,179,404	6,534,336
DEFERRED INFLOWS OF RESOURCES	9,089,024	7,368,779	1,720,245
NET POSITION			
Net investment in capital assets	79,102,659	75,153,096	3,949,563
Restricted	21,071,916	18,210,756	2,861,160
Unrestricted	(71,916,904)	(67,486,471)	(4,430,433)
Total Net Position	\$ 28,257,671	\$ 25,877,381	\$ 2,380,290

**SANTA MARIA JOINT UNION HIGH SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2017**

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE (continued)

Changes in Net Position

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

	Governmental Activities		
	2017	2016	Net Change
REVENUES			
Program revenues			
Charges for services	\$ 881,740	\$ 1,239,019	\$ (357,279)
Operating grants and contributions	18,735,409	15,322,692	3,412,717
General revenues			
Property taxes	39,174,335	37,383,538	1,790,797
Unrestricted federal and state aid	50,264,502	49,314,683	949,819
Other	2,775,483	2,370,257	405,226
Total Revenues	111,831,469	105,630,189	6,201,280
EXPENSES			
Instruction	57,255,419	52,780,517	4,474,902
Instruction-related services	12,583,612	10,856,691	1,726,921
Pupil services	12,960,371	11,469,652	1,490,719
General administration	4,924,665	4,693,076	231,589
Plant services	10,942,989	9,718,015	1,224,974
Ancillary and community services	2,756,363	2,500,835	255,528
Debt service	3,579,305	3,951,576	(372,271)
Other Outgo	127,452	407,898	(280,446)
Depreciation	4,321,003	4,090,103	230,900
Total Expenses	109,451,179	100,468,363	8,982,816
Change in net position	2,380,290	5,161,826	(2,781,536)
Net Position - Beginning	25,877,381	20,715,555	5,161,826
Net Position - Ending	\$ 28,257,671	\$ 25,877,381	\$ 2,380,290

**SANTA MARIA JOINT UNION HIGH SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2017**

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE (continued)

Changes in Net Position (continued)

The total net cost of services provided for the year ended June 30, 2017 was \$89,834,030.

	Net Cost of Services	
	2017	2016
Instruction	\$ 45,778,095	\$ 45,093,249
Instruction-related services	10,662,950	8,706,744
Pupil services	8,153,328	7,056,135
General administration	4,400,213	4,140,883
Plant services	10,320,578	8,478,199
Ancillary and community services	2,618,141	2,312,288
Debt service	3,579,305	3,951,576
Transfers to other agencies	417	77,475
Depreciation	4,321,003	4,090,103
Total Expenses	\$ 89,834,030	\$ 83,906,652

FINANCIAL ANALYSIS OF THE DISTRICT'S MAJOR FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed this year, its governmental funds reported a combined fund balance of \$56,313,269, which is less than last year's ending fund balance of \$64,223,452. The District's General Fund had \$1,238,317 more in operating revenues than expenditures for the year ended June 30, 2017. The District's Building Fund had \$9,298,887 less in operating revenues than expenditures for the year ended June 30, 2017. The District's Bond Interest and Redemption Fund had \$501,353 less in operating revenues than expenditures for the year ended June 30, 2017.

CURRENT YEAR BUDGET 2016-17

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

**SANTA MARIA JOINT UNION HIGH SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2017**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2016-17, the District had invested \$143,747,223 in capital assets, net of accumulated depreciation.

	Governmental Activities		
	2017	2016	Net Change
CAPITAL ASSETS			
Land	\$ 10,643,402	\$ 10,607,212	\$ 36,190
Construction in progress	17,536,938	10,842,225	6,694,713
Land improvements	19,492,934	18,592,317	900,617
Buildings & improvements	129,215,716	125,321,564	3,894,152
Furniture & equipment	19,526,822	18,623,608	903,214
Accumulated depreciation	(52,668,589)	(48,347,586)	(4,321,003)
Total Capital Assets	\$143,747,223	\$135,639,340	\$ 8,107,883

Long-Term Debt

At year-end, the District had \$182,681,345 in long-term debt, an increase of 2.6% from last year. (More detailed information about the District's long-term liabilities is presented in footnotes to the financial statements.)

	Governmental Activities		
	2017	2016	Net Change
LONG-TERM LIABILITIES			
Total general obligation bonds	\$ 94,072,390	\$ 98,189,200	\$ (4,116,810)
Total certificates of participation	3,064,799	3,403,031	(338,232)
Early retirement incentive	32,498	154,998	(122,500)
Compensated absences	461,368	508,719	(47,351)
Loans payable	-	14,482	(14,482)
Net OPEB obligation	11,420,802	11,028,787	392,015
Net pension liability	78,942,945	70,557,458	8,385,487
Less: current portion of long-term debt	(5,313,457)	(5,887,087)	573,630
Total Long-term Liabilities	\$182,681,345	\$177,969,588	\$ 4,711,757

**SANTA MARIA JOINT UNION HIGH SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2017**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

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

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

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

State revenues are estimated to increase modestly in 2017-18 but there is uncertainty about the State's long-term economic growth. According to the Legislative Analyst's Office, there are concerns about a possible mild recession. In addition, purchasing power has not been restored to pre-2007/08 levels for most school districts as added funding is going to pay for increases in CalPERS and CalSTRS rates increases and rising health care costs.

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, 2017. The amount of the liability is material to the financial position of the District. To address the underfunding issues, the pension plans continue to raise employer rates in future years and the increased costs are significant.

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

All of these factors were considered in preparing the District's budget for the 2017-18 fiscal year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's 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 (805) 922-4573.

SANTA MARIA JOINT UNION HIGH SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2017

	Governmental Activities
ASSETS	
Cash and investments	\$ 57,917,575
Accounts receivable	6,541,174
Inventory	221,385
Prepaid expenses	17,668
Capital assets, not depreciated	28,180,340
Capital assets, net of accumulated depreciation	115,566,883
Total Assets	208,445,025
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to pensions	24,081,491
Deferred amount on refunding	1,533,919
Total Deferred Outflows of Resources	25,615,410
LIABILITIES	
Accrued liabilities	6,380,923
Unearned revenue	2,338,015
Long-term liabilities, current portion	5,313,457
Long-term liabilities, non-current portion	182,681,345
Total Liabilities	196,713,740
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to pensions	9,089,024
Total Deferred Inflows of Resources	9,089,024
NET POSITION	
Net investment in capital assets	79,102,659
Restricted:	
Capital projects	7,347,071
Debt service	8,312,225
Educational programs	3,116,516
All others	2,296,104
Unrestricted	(71,916,904)
Total Net Position	\$ 28,257,671

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

**SANTA MARIA JOINT UNION HIGH SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017**

Function/Programs	Expenses	Program Revenues		Net (Expenses)
		Charges for Services	Operating Grants and Contributions	Revenues and Changes in Net Position
				Governmental Activities
GOVERNMENTAL ACTIVITIES				
Instruction	\$ 57,255,419	\$ 174	\$ 11,477,150	\$ (45,778,095)
Instruction-related services				
Instructional supervision and administration	4,272,025	-	1,223,803	(3,048,222)
Instructional library, media, and technology	2,940,003	-	228,831	(2,711,172)
School site administration	5,371,584	20	468,008	(4,903,556)
Pupil services				
Home-to-school transportation	1,745,095	-	9,414	(1,735,681)
Food services	3,215,890	840,216	2,755,052	379,378
All other pupil services	7,999,386	-	1,202,361	(6,797,025)
General administration				
Centralized data processing	228,718	-	-	(228,718)
All other general administration	4,695,947	26,566	497,886	(4,171,495)
Plant services	10,942,989	48	622,363	(10,320,578)
Ancillary services	2,756,363	6	138,216	(2,618,141)
Interest on long-term debt	3,579,305	-	-	(3,579,305)
Other Outgo	127,452	14,710	112,325	(417)
Depreciation (unallocated)	4,321,003	-	-	(4,321,003)
Total Governmental Activities	\$ 109,451,179	\$ 881,740	\$ 18,735,409	(89,834,030)
General revenues				
Taxes and subventions				
Property taxes, levied for general purposes				32,220,765
Property taxes, levied for debt service				6,891,321
Property taxes, levied for other specific purposes				62,249
Federal and state aid not restricted for specific purposes				50,264,502
Interest and investment earnings				65,713
Interagency revenues				15,542
Miscellaneous				2,694,228
Subtotal, General Revenue				92,214,320
CHANGE IN NET POSITION				2,380,290
Net Position - Beginning				25,877,381
Net Position - Ending				\$ 28,257,671

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

**SANTA MARIA JOINT UNION HIGH SCHOOL DISTRICT
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2017**

	General Fund	Building Fund	Bond Interest & Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS					
Cash and investments	\$ 11,627,590	\$ 26,204,652	\$ 9,483,564	\$ 9,750,291	\$ 57,066,097
Accounts receivable	6,028,924	59,824	17,866	432,164	6,538,778
Due from other funds	21,529	-	-	31,165	52,694
Stores inventory	211,355	-	-	10,030	221,385
Prepaid expenditures	14,048	-	-	3,620	17,668
Total Assets	\$ 17,903,446	\$ 26,264,476	\$ 9,501,430	\$ 10,227,270	\$ 63,896,622
LIABILITIES					
Accrued liabilities	\$ 3,613,289	\$ 1,030,439	\$ -	\$ 548,916	\$ 5,192,644
Due to other funds	31,165	-	-	21,529	52,694
Unearned revenue	2,338,015	-	-	-	2,338,015
Total Liabilities	5,982,469	1,030,439	-	570,445	7,583,353
FUND BALANCES					
Nonspendable	240,403	-	-	13,650	254,053
Restricted	3,116,516	25,234,037	9,501,430	9,643,175	47,495,158
Assigned	4,112,613	-	-	-	4,112,613
Unassigned	4,451,445	-	-	-	4,451,445
Total Fund Balances	11,920,977	25,234,037	9,501,430	9,656,825	56,313,269
Total Liabilities and Fund Balances	\$ 17,903,446	\$ 26,264,476	\$ 9,501,430	\$ 10,227,270	\$ 63,896,622

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

**SANTA MARIA JOINT UNION HIGH SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
JUNE 30, 2017**

Total Fund Balance - Governmental Funds \$ 56,313,269

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

Capital assets:

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

Capital assets	\$ 196,415,812	
Accumulated depreciation	<u>(52,668,589)</u>	143,747,223

Deferred amount on refunding:

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

1,533,919

Unmatured interest on long-term debt:

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

(1,189,205)

Long-term liabilities:

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

Total general obligation bonds	\$ 94,072,390	
Total certificates of participation	3,064,799	
Early retirement incentive	32,498	
Compensated absences	461,368	
Net OPEB obligation	11,420,802	
Net pension liability	<u>78,942,945</u>	(187,994,802)

Deferred outflows and inflows of resources relating to pensions:

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

Deferred outflows of resources related to pensions	\$ 24,081,491	
Deferred inflows of resources related to pensions	<u>(9,089,024)</u>	14,992,467

Internal service funds:

Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because internal service funds are presumed to operate for the benefit of governmental activities, assets, deferred outflows of resources, liabilities, and deferred inflows of resources of internal service funds are reported with governmental activities in the statement of net position. Net position for internal service funds is:

854,800

Total Net Position - Governmental Activities \$ 28,257,671

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

**SANTA MARIA JOINT UNION HIGH SCHOOL DISTRICT
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2017**

	General Fund	Building Fund	Bond Interest & Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES					
LCFF sources	\$ 79,313,375	\$ -	\$ -	\$ -	\$ 79,313,375
Federal sources	4,225,407	-	-	2,614,516	6,839,923
Other state sources	8,081,489	-	61,212	217,085	8,359,786
Other local sources	3,807,421	155,778	6,853,487	2,857,200	13,673,886
Total Revenues	95,427,692	155,778	6,914,699	5,688,801	108,186,970
EXPENDITURES					
Current					
Instruction	53,507,512	-	-	-	53,507,512
Instruction-related services					
Instructional supervision and administration	4,031,055	-	-	-	4,031,055
Instructional library, media, and technology	2,998,206	-	-	-	2,998,206
School site administration	5,052,732	-	-	-	5,052,732
Pupil services					
Home-to-school transportation	1,938,243	-	-	-	1,938,243
Food services	-	-	-	3,185,803	3,185,803
All other pupil services	7,486,875	-	-	-	7,486,875
General administration					
Centralized data processing	221,139	-	-	-	221,139
All other general administration	4,363,590	-	-	167,193	4,530,783
Plant services	10,792,706	23,585	-	23,282	10,839,573
Facilities acquisition and maintenance	550,332	9,431,080	-	1,548,180	11,529,592
Ancillary services	2,771,552	-	-	-	2,771,552
Transfers to other agencies	127,452	-	-	-	127,452
Debt service					
Principal	267,345	-	4,500,000	85,369	4,852,714
Interest and other	80,636	-	2,916,052	27,234	3,023,922
Total Expenditures	94,189,375	9,454,665	7,416,052	5,037,061	116,097,153
Excess (Deficiency) of Revenues Over Expenditures	1,238,317	(9,298,887)	(501,353)	651,740	(7,910,183)
Other Financing Sources (Uses)					
Transfers in	-	-	-	1,594,240	1,594,240
Transfers out	(1,594,240)	-	-	-	(1,594,240)
Net Financing Sources (Uses)	(1,594,240)	-	-	1,594,240	-
NET CHANGE IN FUND BALANCE	(355,923)	(9,298,887)	(501,353)	2,245,980	(7,910,183)
Fund Balance - Beginning	12,276,900	34,532,924	10,002,783	7,410,845	64,223,452
Fund Balance - Ending	\$ 11,920,977	\$ 25,234,037	\$ 9,501,430	\$ 9,656,825	\$ 56,313,269

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

**SANTA MARIA JOINT UNION HIGH SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017**

Net Change in Fund Balances - Governmental Funds \$ (7,910,183)

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

Capital outlay:

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

Expenditures for capital outlay:	\$ 12,277,401	
Depreciation expense:	<u>(4,321,003)</u>	7,956,398

Debt service:

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

4,852,714

Deferred amounts on refunding:

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

(205,154)

Donated capital assets:

In governmental funds, donated capital assets are not reported because they do not affect current financial resources. In the government-wide statements, donated capital assets are reported as revenue and as increases to capital assets, at their fair market value on the date of donation. The fair market value of capital assets donated was:

151,485

Unmatured interest on long-term debt:

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

32,961

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

**SANTA MARIA JOINT UNION HIGH SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE STATEMENT OF
ACTIVITIES, continued
FOR THE YEAR ENDED JUNE 30, 2017**

Accreted interest on long-term debt:

In governmental funds, accreted interest on capital appreciation bonds is not recorded as an expenditure from current sources. In the government-wide statement of activities, however, this is recorded as interest expense for the period. (890,679)

Compensated absences:

In governmental funds, compensated absences are measured by the amounts paid during the period. In the statement of activities, compensated absences are measured by the amount earned. The difference between compensated absences paid and compensated absences earned, was: 47,351

Other expenditures relating to prior periods:

Certain expenditures recognized in governmental funds relate to prior periods. Typical examples are payments on structured legal settlements or retirement incentives paid over time. These expenditures are recognized in the government-wide statement of activities in the period in which the obligations were first incurred, so they must not be recognized again in the current period. Expenditures relating to prior periods for early retirement incentives were: 122,500

Postemployment benefits other than pensions (OPEB):

In governmental funds, OPEB costs are recognized when employer contributions are made. In the statement of activities, OPEB costs are recognized on the accrual basis. This year, the difference between OPEB costs and actual employer contributions was: (392,015)

Pensions:

In governmental funds, pension costs are recognized when employer contributions are made, in the government-wide statement of activities, pension costs are recognized on the accrual basis. This year, the difference between accrual-basis pension costs and employer contributions was: (1,913,630)

Amortization of debt issuance premium or discount:

In governmental funds, if debt is issued at a premium or at a discount, the premium or discount is recognized as an Other Financing Source or an Other Financing Use in the period it is incurred. In the government-wide statements, the premium or discount is amortized over the life of the debt. Amortization of premium or discount for the period is: 507,489

Internal Service Funds:

Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because internal service funds are presumed to benefit governmental activities, internal service activities are reported as governmental in the statement of activities. The net increase or decrease in internal service funds was: 21,053

Change in Net Position of Governmental Activities	\$ 2,380,290
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The accompanying notes are an integral part of these financial statements.

SANTA MARIA JOINT UNION HIGH SCHOOL DISTRICT
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION
 JUNE 30, 2017

	Governmental Activities
	Internal Service Fund
ASSETS	
Current assets	
Cash and investments	\$ 851,478
Accounts receivable	2,396
Total current assets	<u>853,874</u>
Total Assets	<u>853,874</u>
LIABILITIES	
Current liabilities	
Accrued liabilities	(926)
Total current liabilities	<u>(926)</u>
Total Liabilities	<u>(926)</u>
NET POSITION	
Unrestricted	<u>854,800</u>
Total Net Position	<u>\$ 854,800</u>

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

SANTA MARIA JOINT UNION HIGH SCHOOL DISTRICT
 PROPRIETARY FUNDS
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
 FOR THE YEAR ENDED JUNE 30, 2017

	Governmental Activities
	Internal Service Fund
OPERATING REVENUE	
Charges for services	\$ 802,996
Other local revenues	71,823
Total operating revenues	<u>874,819</u>
OPERATING EXPENSE	
Professional services	856,377
Total operating expenses	<u>856,377</u>
Operating income/(loss)	<u>18,442</u>
NON-OPERATING REVENUES/(EXPENSES)	
Interest income	2,611
Total non-operating revenues/(expenses)	<u>2,611</u>
CHANGE IN NET POSITION	21,053
Net Position - Beginning	833,747
Net Position - Ending	<u>\$ 854,800</u>

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

**SANTA MARIA JOINT UNION HIGH SCHOOL DISTRICT
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2017**

	Governmental Activities
	Internal Service Fund
Cash flows from operating activities	
Cash received from user charges	\$ 874,299
Cash payments for payroll, insurance, and operating costs	(856,377)
Net cash provided by (used for) operating activities	<u>17,922</u>
Cash flows from investing activities	
Interest received	<u>2,611</u>
Net cash provided by (used for) investing activities	<u>2,611</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>20,533</u>
 CASH AND CASH EQUIVALENTS	
Beginning of year	<u>830,945</u>
End of year	<u>\$ 851,478</u>
 Reconciliation of operating income (loss) to cash provided by (used for) operating activities	
Operating income (loss)	\$ 18,442
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(1,381)
(Increase) decrease in due from other funds	861
Net cash provided by (used for) operating activities	<u>\$ 17,922</u>

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

SANTA MARIA JOINT UNION HIGH SCHOOL DISTRICT
 FIDUCIARY FUNDS
 STATEMENT OF NET POSITION
 JUNE 30, 2017

	<u>Trust Funds</u>	<u>Agency Funds</u>
	<u>Retiree Benefit</u>	<u>Student Body</u>
	<u>Fund</u>	<u>Fund</u>
ASSETS		
Cash and investments	\$ 1,108,047	\$ 1,230,213
Total Assets	<u>1,108,047</u>	<u>\$ 1,230,213</u>
LIABILITIES		
Accrued liabilities	2,367	\$ -
Due to student groups	-	1,230,213
Total Liabilities	<u>2,367</u>	<u>\$ 1,230,213</u>
NET POSITION		
Restricted for postemployment benefits other than pensions	1,105,680	
Total Net Position	<u>\$ 1,105,680</u>	

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

SANTA MARIA JOINT UNION HIGH SCHOOL DISTRICT
 FIDUCIARY FUNDS
 STATEMENT OF CHANGES IN NET POSITION
 FOR THE YEAR ENDED JUNE 30, 2017

	<u>Trust Funds</u>
	<u>Retiree Benefit</u>
	<u>Fund</u>
ADDITIONS	
Contributions	\$ 1,098,502
Investment earnings	92,913
Total Additions	<u>1,191,415</u>
DEDUCTIONS	
Benefit payments	575,069
Administrative expense	9,839
Total Deductions	<u>584,908</u>
CHANGE IN NET POSITION	606,507
Net Position - Beginning, as restated	499,173
Net Position - Ending	<u>\$ 1,105,680</u>

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

SANTA MARIA JOINT UNION HIGH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

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

The District operates under a locally elected Board form of government and provides educational services to grades 9-12 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 no such component units.

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.

SANTA MARIA JOINT UNION HIGH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2017

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

C. **Basis of Presentation** (*continued*)

Fund Financial Statements. The fund financial statements provide information about the District's funds, including its proprietary and fiduciary funds. Separate statements for each fund category – governmental, proprietary 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.

Proprietary funds are used to account for activities that are more business-like than government-like in nature. Business-type activities include those for which a fee is charged to external users or to other organizational units of the District, normally on a full cost-recovery basis. Proprietary funds are generally intended to be self-supporting.

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*).

Bond Interest and Redemption Fund: This fund is used for the repayment of bonds issued for the District (*Education Code Sections 15125–15262*). 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.

SANTA MARIA JOINT UNION HIGH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

Non-Major Governmental Funds

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

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

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

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

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

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*).

Proprietary Funds

Internal Service Funds: Internal service funds are created principally to render services to other organizational units of the District on a cost-reimbursement basis. These funds are designed to be self-supporting with the intent of full recovery of costs, including some measure of the cost of capital assets, through user fees and charges.

Self-Insurance Fund: Self-insurance funds are used to separate moneys received for self-insurance activities from other operating funds of the District. Separate funds may be established for each type of self-insurance activity, such as workers' compensation, health and welfare, and deductible property loss (*Education Code Section 17566*).

SANTA MARIA JOINT UNION HIGH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

Fiduciary Funds

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

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

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

D. Basis of Accounting – Measurement Focus

Government-Wide, Proprietary, and Fiduciary Financial Statements

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide, proprietary, 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.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the internal service fund are charges to other funds for self-insurance costs. Operating expenses for internal service funds include the costs of insurance premiums and claims related to self-insurance.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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.

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.

SANTA MARIA JOINT UNION HIGH SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Cash and Cash Equivalents

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

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 recorded using the purchases method in that the cost is recorded as an expenditure at the time the individual inventory items are requisitioned. Inventories are valued at historical cost and consist of expendable supplies held for consumption.

Capital Assets

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

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

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings	20 - 50
Site Improvements	20
Equipment	5 - 15

Interfund Balances

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Compensated Absences

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

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

Accrued Liabilities and Long-Term Obligations

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

Premiums and Discounts

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

Deferred Outflows/Deferred Inflows of Resources

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

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

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.

SANTA MARIA JOINT UNION HIGH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2017

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.

SANTA MARIA JOINT UNION HIGH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2017

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. For purposes of the budget, on-behalf payments have not been included as revenue and expenditures as required under generally accepted accounting principles.

I. Property Tax

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

SANTA MARIA JOINT UNION HIGH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2017

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

J. New Accounting Pronouncements

GASB Statement No. 74 – In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This standard’s primary objective is to improve the usefulness of information about postemployment benefits other than pensions for making decisions and assessing accountability. The Statement is effective for periods beginning after June 15, 2016. The District has implemented GASB Statement No. 74 for the year ended June 30, 2017.

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

GASB Statement No. 80 – In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units – an Amendment of GASB Statement No. 14*. This standard’s primary objective is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. The Statement is effective for periods beginning after June 15, 2016. The District has implemented GASB Statement No. 80 for the year ended June 30, 2017.

GASB Statement No. 82 – In March 2016, GASB issued Statement No. 82, *Pension Issues – an Amendment of GASB Statements No. 67, No. 68, and No. 73*. This standard’s primary objective is to address issues regarding the presentation of payroll-related measures in required supplementary information, the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The majority of this Statement is effective for periods beginning after June 15, 2016. The District has implemented GASB Statement No. 82 for the year ended June 30, 2017.

SANTA MARIA JOINT UNION HIGH SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2017

NOTE 2 – CASH AND INVESTMENTS

A. Summary of Cash and Investments

			Total	
	Governmental Funds	Internal Service Funds	Governmental Activities	Fiduciary Funds
Investment in county treasury	\$ 56,909,757	\$ 720,262	\$ 57,630,019	\$ -
Fair market value adjustment	(30,503)	(386)	(30,889)	-
Cash on hand and in banks	2,501	131,602	134,103	1,232,580
Cash with fiscal agent	169,342	-	169,342	-
Cash in revolving fund	15,000	-	15,000	-
Futuris trust	-	-	-	1,105,680
Total cash and investments	\$ 57,066,097	\$ 851,478	\$ 57,917,575	\$ 2,338,260

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 Santa Barbara 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.

SANTA MARIA JOINT UNION HIGH SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2017

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.

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

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Treasury. The District maintains a pooled investment with the County Treasury with a fair value of approximately \$57,599,130 and an amortized book value of \$57,630,019. The average weighted maturity for this pool is 405 days. The District's investments in Futuris do not have an average weighted maturity.

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, 2017, the pooled investments in the County Treasury were rated at least A.

SANTA MARIA JOINT UNION HIGH SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2017

NOTE 2 – CASH AND INVESTMENTS (continued)

F. Custodial Credit Risk – Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2017, 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 Santa Barbara County Treasury Investment Pool are not measured using the input levels above because the District's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at \$1.00 net asset value per share.

The District's fair value measurements at June 30, 2017 were as follows:

	Quoted Prices		
	Level 1	Uncategorized	Total
Investment in county treasury	\$ -	\$ 57,599,130	\$ 57,599,130
Futuris trust	1,105,680	-	1,105,680
Total fair market value of investments	\$ 1,105,680	\$ 57,599,130	\$ 58,704,810

SANTA MARIA JOINT UNION HIGH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2017 consisted of the following:

	General Fund	Building Fund	Bond Interest & Redemption Fund	Non-Major Governmental Funds	Internal Service Funds	Total Governmental Activities
Federal Government						
Categorical aid	\$ 1,792,599	\$ -	\$ -	\$ 380,788	\$ -	\$ 2,173,387
State Government						
Apportionment	2,557,407	-	-	-	-	2,557,407
Categorical aid	543,166	-	-	29,040	-	572,206
Lottery	707,246	-	-	-	-	707,246
Local Government						
Other local sources	428,506	59,824	17,866	22,336	2,396	530,928
Total	\$ 6,028,924	\$ 59,824	\$ 17,866	\$ 432,164	\$ 2,396	\$ 6,541,174

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017 was as follows:

	Balance July 01, 2016	Additions	Deletions	Balance June 30, 2017
Governmental Activities				
Capital assets not being depreciated				
Land	\$ 10,607,212	\$ 36,190	\$ -	\$ 10,643,402
Construction in progress	10,842,225	11,251,795	4,557,082	17,536,938
Total Capital Assets not Being Depreciated	21,449,437	11,287,985	4,557,082	28,180,340
Capital assets being depreciated				
Land improvements	18,592,317	900,617	-	19,492,934
Buildings & improvements	125,321,564	3,894,152	-	129,215,716
Furniture & equipment	18,623,608	903,214	-	19,526,822
Total Capital Assets Being Depreciated	162,537,489	5,697,983	-	168,235,472
Less Accumulated Depreciation				
Land improvements	6,103,531	919,905	-	7,023,436
Buildings & improvements	28,521,032	2,521,313	-	31,042,345
Furniture & equipment	13,723,023	879,785	-	14,602,808
Total Accumulated Depreciation	48,347,586	4,321,003	-	52,668,589
Governmental Activities				
Capital Assets, net	\$ 135,639,340	\$ 12,664,965	\$ 4,557,082	\$ 143,747,223

SANTA MARIA JOINT UNION HIGH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 5 – INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due From/Due To)

Individual interfund receivable and payable balances at June 30, 2017 were as follows:

	Due To Other Funds	Due From Other Funds		
		General Fund	Non-Major Governmental Funds	Total
General Fund		\$ -	\$ 31,165	\$ 31,165
Non-Major Governmental Funds		21,529	-	21,529
Total Due From Other Funds		\$ 21,529	\$ 31,165	\$ 52,694
Due from the Cafeteria Fund to the General Fund for indirect costs and OPEB contributions.				\$ 21,529
Due from the General Fund to the Cafeteria Fund for catering services.				41
Due from the General Fund to the Special Reserve Fund for Capital Outlay Projects for facility related RDA offset taxes.				31,124
Total				\$ 52,694

Interfund Transfers

During the year ended June 30, 2017, the General Fund transferred \$1,594,240 to the Special Reserve Fund for Capital Outlay Projects to support capital projects.

NOTE 6 – ACCRUED LIABILITIES

Accrued liabilities at June 30, 2017 consisted of the following:

	General Fund	Building Fund	Non-Major Governmental		Internal Service Funds	District-Wide	Total Governmental		Total Fiduciary
			Funds	Funds			Activities		
Payroll	\$ 1,865,463	\$ -	\$ 7,532	\$ -	\$ -	\$ -	\$ 1,872,995	\$ -	
Construction	-	1,030,439	463,760	-	-	-	1,494,199	-	
Vendors payable	1,747,826	-	77,624	-	-	-	1,825,450	-	
Unmatured interest	-	-	-	-	1,189,205	-	1,189,205	-	
Other liabilities	-	-	-	(926)	-	-	(926)	2,367	
Total	\$ 3,613,289	\$ 1,030,439	\$ 548,916	\$ (926)	\$ 1,189,205	\$ 6,380,923	\$ 2,367		

NOTE 7 – UNEARNED REVENUE

Unearned revenue in the General Fund at June 30, 2017 consisted of \$2,338,015, with \$62,091 attributed to federal sources and \$2,275,924 attributed to State sources.

SANTA MARIA JOINT UNION HIGH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 8 – LONG-TERM DEBT

A schedule of changes in long-term debt for the year ended June 30, 2017 consisted of the following:

	Balance July 01, 2016	Additions	Deductions	Balance June 30, 2017	Balance Due In One Year
Governmental Activities					
General obligation bonds	\$ 87,549,253	\$ -	\$ 4,500,000	\$ 83,049,253	\$ 4,415,000
Unamortized premium	5,805,957	-	507,489	5,298,468	507,489
Accreted interest	4,833,990	890,679	-	5,724,669	-
Total general obligation bonds	<u>98,189,200</u>	<u>890,679</u>	<u>5,007,489</u>	<u>94,072,390</u>	<u>4,922,489</u>
Certificates of participation	3,403,031	-	338,232	3,064,799	368,468
Early retirement incentive	154,998	-	122,500	32,498	22,500
Compensated absences	508,719	-	47,351	461,368	-
Loans payable	14,482	-	14,482	-	-
Net OPEB obligation	11,028,787	392,015	-	11,420,802	-
Net pension liability	70,557,458	8,385,487	-	78,942,945	-
Total	<u>\$ 183,856,675</u>	<u>\$ 9,668,181</u>	<u>\$ 5,530,054</u>	<u>\$ 187,994,802</u>	<u>\$ 5,313,457</u>

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

Payments for certificates of participation are made in the General Fund and Capital Facilities Fund.

Payments for early retirement incentive are made in the General Fund.

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

Payments for loans payable are made in the General Fund.

A. Compensated Absences

Total unpaid employee compensated absences as of amounted to \$461,368. This amount is included as part of long-term liabilities in the government-wide financial statements.

B. Certificates of Participation

The annual requirements to amortize the certificates of participation outstanding at June 30, 2017 are as follows:

Year Ended June 30,	Principal	Interest	Total
2018	\$ 368,468	\$ 96,636	\$ 465,104
2019	393,646	84,458	478,104
2020	413,601	71,504	485,105
2021	444,290	57,814	502,104
2022	479,009	43,095	522,104
2023 - 2024	965,785	38,423	1,004,208
Total	<u>\$ 3,064,799</u>	<u>\$ 391,930</u>	<u>\$ 3,456,729</u>

SANTA MARIA JOINT UNION HIGH SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2017

NOTE 8 – LONG-TERM DEBT (continued)

C. General Obligation Bonds

The outstanding general obligation bonded debt of the District as of June 30, 2017 is as follows:

Series	Maturity Date	Interest Rate	Original Issue	Bonds			Bonds Outstanding June 30, 2017
				Outstanding July 01, 2016	Additions	Deductions	
Election 2000, Series B	2025	2.0%-4.375%	\$ 12,000,000	\$ 2,200,000	\$ -	\$ -	\$ 2,200,000
Election 2004, Series 2005	2030	2.0%-5.010%	34,998,222	3,678,221	-	-	3,678,221
2006 Refunding	2021	4.0%-5.000%	25,452,727	1,825,000	-	1,825,000	-
Election 2004, Series 2013	2038	2.0%-5.350%	14,999,873	13,419,873	-	360,000	13,059,873
2013 Refunding	2027	4.0%-5.000%	26,820,000	26,505,000	-	2,090,000	24,415,000
Election 2004, Series 2014	2038	3.0%-5.0%	28,996,159	28,996,159	-	-	28,996,159
2015 Refunding	2021	1.46%	860,000	860,000	-	30,000	830,000
2016 Refunding	2021	1.79%	10,065,000	10,065,000	-	195,000	9,870,000
				\$ 87,549,253	\$ -	\$ 4,500,000	\$ 83,049,253

The annual requirements to amortize the Election 2000, Series B general obligation bonds outstanding at June 30, 2017, are as follows:

Year Ended June 30,	Principal	Interest	Total
2018	\$ -	\$ 123,750	\$ 123,750
2019	-	123,750	123,750
2020	-	123,750	123,750
2021	-	123,750	123,750
2022	-	123,750	123,750
2023 - 2025	2,200,000	255,938	2,455,938
Total	\$ 2,200,000	\$ 874,688	\$ 3,074,688

The annual requirements to amortize the Election 2004, Series 2005 general obligation bonds outstanding at June 30, 2017, are as follows:

Year Ended June 30,	Principal	Interest	Total
2018	\$ -	\$ -	\$ -
2019	-	-	-
2020	-	-	-
2021	-	-	-
2022	-	-	-
2023 - 2027	-	-	-
2028 - 2031	3,678,221	12,861,779	16,540,000
Total	\$ 3,678,221	\$ 12,861,779	\$ 16,540,000

SANTA MARIA JOINT UNION HIGH SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2017

NOTE 8 – LONG-TERM DEBT (continued)

C. General Obligation Bonds (continued)

The annual requirements to amortize the Election 2004, Series 2013 general obligation bonds outstanding at June 30, 2017 are as follows:

Year Ended June 30,	Principal	Interest	Total
2018	\$ 320,000	\$ 434,050	\$ 754,050
2019	-	421,250	421,250
2020	-	421,250	421,250
2021	-	421,250	421,250
2022	-	421,250	421,250
2023 - 2027	-	2,106,250	2,106,250
2028 - 2032	2,590,000	2,103,750	4,693,750
2033 - 2037	9,110,186	7,563,462	16,673,648
2038	1,039,687	2,705,313	3,745,000
Total	\$ 13,059,873	\$ 16,597,825	\$ 29,657,698

The annual requirements to amortize the 2013 Refunding general obligation bonds outstanding at June 30, 2017 are as follows:

Year Ended June 30,	Principal	Interest	Total
2018	\$ 2,375,000	\$ 1,067,600	\$ 3,442,600
2019	1,755,000	972,600	2,727,600
2020	1,525,000	928,725	2,453,725
2021	1,780,000	867,725	2,647,725
2022	1,845,000	796,525	2,641,525
2023 - 2027	15,135,000	2,433,600	17,568,600
Total	\$ 24,415,000	\$ 7,066,775	\$ 31,481,775

The annual requirements to amortize the Election 2004, Series 2014 general obligation bonds outstanding at June 30, 2017, are as follows:

Year Ended June 30,	Principal	Interest	Total
2018	\$ -	\$ 1,059,750	\$ 1,059,750
2019	360,000	1,050,750	1,410,750
2020	355,000	1,032,875	1,387,875
2021	350,000	1,015,250	1,365,250
2022	550,000	992,750	1,542,750
2023 - 2027	1,680,000	4,679,000	6,359,000
2028 - 2032	2,951,159	7,343,760	10,294,919
2033 - 2037	18,185,000	2,788,025	20,973,025
2038	4,565,000	91,300	4,656,300
Total	\$ 28,996,159	\$ 20,053,460	\$ 49,049,619

SANTA MARIA JOINT UNION HIGH SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2017

NOTE 8 – LONG-TERM DEBT (continued)

C. General Obligation Bonds (continued)

2015 Refunding Bonds

The District issued 2015 Refunding Bonds on December 1, 2015. The net proceeds received for the 2015 Refunding Bonds were used to purchase U.S. government securities. Those securities were deposited into an irrevocable trust with an escrow agent to provide for future debt service payments on the 2006 General Obligation Bonds that were refunded. As a result, the refunded bonds are considered to be defeased, and the related liability for the bonds has been removed from the District’s financial statements. Amounts paid to the refunded bond escrow agent in excess of the outstanding debt at the time of payment are recorded as deferred charges on refunding on the statement of net position and are amortized as an expense over the life of the bond. This refunding reduced total debt service payments by \$43,874 and resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$42,965. As of June 30, 2017, the principal balance outstanding on the defeased debt was paid in full.

The annual requirements to amortize the 2015 Refunding Bonds outstanding at June 30, 2017, are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 140,000	\$ 11,096	\$ 151,096
2019	230,000	8,395	238,395
2020	265,000	4,782	269,782
2021	195,000	1,424	196,424
Total	\$ 830,000	\$ 25,697	\$ 855,697

2016 Refunding Bonds

The District issued 2016 Refunding Bonds on May 5, 2016. The net proceeds received for the 2016 Refunding Bonds were used to purchase U.S. government securities. Those securities were deposited into an irrevocable trust with an escrow agent to provide for future debt service payments on the 2006 General Obligation Bonds that were refunded. As a result, the refunded bonds are considered to be defeased, and the related liability for the bonds has been removed from the District’s financial statements. Amounts paid to the refunded bond escrow agent in excess of the outstanding debt at the time of payment are recorded as deferred charges on refunding on the statement of net position and are amortized as an expense over the life of the bond. This refunding reduced total debt service payments by \$580,808 and resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$567,241. As of June 30, 2017, the principal balance outstanding on the defeased debt was paid in full.

The annual requirements to amortize the 2016 Refunding Bonds outstanding at June 30, 2017, are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 1,580,000	\$ 162,532	\$ 1,742,532
2019	2,755,000	123,734	2,878,734
2020	3,160,000	70,795	3,230,795
2021	2,375,000	21,256	2,396,256
Total	\$ 9,870,000	\$ 378,317	\$ 10,248,317

SANTA MARIA JOINT UNION HIGH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 8 – LONG-TERM DEBT (continued)

D. Loans Payable

During the year ended June 30, 2013, the District received a loan from Pacific Gas and Electric through their energy efficiency retrofit loan program in the amount of \$111,023, which was payable in monthly installments of \$2,414 for a term of 46 months. Payments of \$14,482 were made during the year ended June 30, 2017, and the balance of the loan outstanding was \$0 as of June 30, 2017.

E. Early Retirement Incentive

During the year ended June 30, 2014, the District offered and entered into several early retirement incentive agreements for certificated employees.

The annual requirements to amortize the outstanding early retirement incentives at June 30, 2017, are as follows:

<u>Year Ended June 30,</u>	<u>Payment</u>
2018	\$ 22,500
2019	9,998
Total	<u>\$ 32,498</u>

F. Net Pension Liability

The District's beginning net pension liability was \$70,557,458 and increased by \$8,385,487 during the year ended June 30, 2017. The ending net pension liability at June 30, 2017 was \$78,942,945. See Note 11 for additional information regarding the net pension liability.

SANTA MARIA JOINT UNION HIGH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 9 – FUND BALANCES

Fund balances were composed of the following elements at June 30, 2017:

	General Fund	Building Fund	Bond Interest & Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
Non-spendable					
Revolving cash	\$ 15,000	\$ -	\$ -	\$ -	\$ 15,000
Stores inventory	211,355	-	-	10,030	221,385
Prepaid expenditures	14,048	-	-	3,620	17,668
Total non-spendable	240,403	-	-	13,650	254,053
Restricted					
Educational programs	3,116,516	-	-	-	3,116,516
Capital projects	-	25,234,037	-	7,347,071	32,581,108
Debt service	-	-	9,501,430	-	9,501,430
All others	-	-	-	2,296,104	2,296,104
Total restricted	3,116,516	25,234,037	9,501,430	9,643,175	47,495,158
Assigned					
Site-department carryover	429,979	-	-	-	429,979
Instructional materials	961,882	-	-	-	961,882
Technology	283,297	-	-	-	283,297
Site allocations	144,334	-	-	-	144,334
Professional development	181,299	-	-	-	181,299
School marquees	44,067	-	-	-	44,067
Maintenance	39,632	-	-	-	39,632
MAA carryover	181,275	-	-	-	181,275
Solar energy project consultant	51,071	-	-	-	51,071
Miscellaneous grants/donations	92,649	-	-	-	92,649
Special reserve	1,210,668	-	-	-	1,210,668
Deferred maintenance	492,460	-	-	-	492,460
Total assigned	4,112,613	-	-	-	4,112,613
Unassigned					
Reserve for economic uncertainties	2,877,921	-	-	-	2,877,921
Remaining unassigned	1,573,524	-	-	-	1,573,524
Total unassigned	4,451,445	-	-	-	4,451,445
Total	\$ 11,920,977	\$ 25,234,037	\$ 9,501,430	\$ 9,656,825	\$ 56,313,269

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 3 percent of General Fund expenditures and other financing uses.

SANTA MARIA JOINT UNION HIGH SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2017

NOTE 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

A. Plan Description

Plan administration. The District administers a single-employer defined benefit other postemployment plan (OPEB) that provides medical, dental, and vision insurance benefits to eligible retirees.

Three-tiered rates (Single, Two-Party, and Family) are used for all benefits. The rates for early retirees are the same as those for active employees under the Certificated plan, meaning that the early retirees are being subsidized by premiums charged to the District for its active employees. The SISC retiree-only rates are designed to be non-subsidized, but the spouse portion of the second tier rate is 28% subsidized.

District-paid benefits include medical/prescription drug (offered as a package) for all eligible retirees, and dental and vision insurance for Certificated retirees. For groups other than Certificated, the District’s contribution towards medical/Rx benefits is limited to the amount of the premium (by tier) for SISC base plan. The District caps for Certificated retirees also vary by tier based on the High Desert Trust rate structure, and are applied before adding on dental and vision premiums for retirees and any covered dependents.

Plan membership. At June 30, 2016, membership consisted of the following:

	<u>Number of participants</u>
Inactive employees receiving benefits	41
Inactive employees entitled to but not receiving benefits	-
Participating active employees	<u>736</u>
Total number of participants*	<u><u>777</u></u>

*As of the June 30, 2016 valuation date

Benefits provided. Upon attainment of a minimum age (55 for Certificated and Certificated Management, 50 for Classified, Classified Management, and Confidential) and completion of a minimum District service requirement (5 years for Management, 10 years for all other groups), an employee may retire and remain covered at the District’s expense for a period depending on employment classification, and subject to making monthly retiree contributions.

District-paid coverage ends at age 65 for all eligible Certificated, Certificated Management, and Classified Management retirees. Classified and Confidential retirees’ benefits continue until the earlier of 10 years of benefits or age 65. For Classified and Confidential employees hired prior to January 1, 2008, the 10-year benefit period is increased by one year for each year of active service in excess of 10 years, to a maximum of 15 years of benefits (or age 65, if earlier.) Board members do not earn retiree healthcare benefits by reason of their Board service, but may retain rights to benefits earned while covered under one of the active employee classifications.

Contributions. The District’s contribution is currently based on a projected pay-as-you-go funding method, that is, benefits are payable when due.

SANTA MARIA JOINT UNION HIGH SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2017

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

B. Investments

Investment policy. The Retirement Board of Authority is responsible for the selection and ongoing evaluation of investments and/or investment managers and has delegated investment responsibilities to the Benefit Trust Company (“BTC”). The Retirement Board of Authority retains the responsibility to oversee the management of the Trust, including BTC’s or any successor trustee’s, requirement that investments and assets held within the trust continually adhere to the requirement of California Government Code.

The trust authorizes the use of a broad range of investment choices that have distinctly different risk and return characteristics. The Retirement Board of Authority determines the target return (which may be modified from time to time) that is applicable for the trust as it relates to the assets held in the trust fund. After due consideration to the time horizon of the trust, trust liquidity needs, and the District’s risk tolerance and capacity for risk, the Retirement Board of Authority has determined the trust shall be invested with the objective of achieving an annualized target net rate of return of 7.0% to meet the plan’s actuarial assumptions, as well as an additional 0.5% to cover the cost of trust administration and GASB compliance.

Concentrations. The Plan held the following investments which represent 5 percent or more of the Plan’s fiduciary net position:

<u>Investment</u>	<u>Fair Value</u>	<u>Percentage of fiduciary net position</u>
Mutual Fund - Fixed Income		
Blackrock Total Return - K	\$ 87,051	7.87%
Guggenheim Investments Macro Opportunities Inst	86,539	7.83%
Guggenheim Investments Investment Grade Bond Fund	87,229	7.89%
Prudential Funds Total Return Bond CL Q	87,339	7.90%
Western Asset Core Plus Bond IS	97,840	8.85%
Mutual Fund - Domestic Equity		
Alger Funds Spectra Z	56,350	5.10%
All others	603,332	54.57%
Total fiduciary net position	<u>\$ 1,105,680</u>	

Rate of return. For the year ended, June 30, 2017, the annual money-weighted rate of return on investments, net of investment expense, was 12.19 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

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

C. Strategic Asset Allocation Ranges

The trustee shall manage the trust investments on a discretionary basis such that the total allocation among various investment styles, capitalizations, fund managers and securities is established and rebalanced from time to time to meet the trust's overall target return objectives with the least amount of risk.

Equity investments. The purpose of the aggregate equity allocation with the trust is to provide a total return consisting primarily of appreciation, with dividend income a secondary consideration. In order to maximize return opportunity while minimizing risk, the trust shall, in its discretion, allocate the trust's equity allocation among a diverse group of equity fund managers, taking into consideration such factors as investment style (value, growth, international, etc.), as well as capitalization (large, mid, small, etc.) of the investment.

Fixed income investments. The purpose of the aggregate fixed income allocation within the trust is to provide a total return consisting of income and appreciation, while preserving capital by investing in a diversified portfolio of high quality fixed income securities. The investment objective of the fixed income portfolio is to achieve a total return commensurate with the overall bond market as measured by the Barclay's Aggregate Bond Index for domestic securities, and the Barclay's Global Bond Index for international securities, with attention given to rolling three and five-year time frames as well as shorter periods should the situation warrant. In addition, the trust shall measure and compare the exposure of the trust's fixed income portfolio with benchmarks appropriate for the investment style and capitalization range of each such investment.

Mutual Funds. The Retirement Board of Authority envisions that the trustee will invest predominantly in open and closed-end mutual funds.

SANTA MARIA JOINT UNION HIGH SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, *continued*
 JUNE 30, 2017

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

D. Net OPEB Liability of the District

The components of the net OPEB liability of the District at June 30, 2017, were as follows:

Total OPEB liability	\$ 20,405,505
Plan fiduciary net position	(1,105,680)
District's net OPEB liability	\$ 19,299,825

Plan fiduciary net position as a percentage of total OPEB liability	5.42%
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Actuarial assumptions. The total OPEB liability was determined by an actuarial valuation as of June 30, 2016, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Salary increases	3.0 percent
Investment rate of return	4.0 percent, net of OPEB plan investment expense
Medical/Rx trend rate	6.0 percent for 2016 and 5.0 percent for 2017 and later years
Dental/vision trend rate	4.0 percent

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.

The actuarial assumptions used in the June 30, 2016 valuation were based on a review of plan experience during the period July 1, 2014 to June 30, 2016.

To achieve the goal set by the investment policy, plan assets will be managed to earn a rate of return equal to or in excess of the target net rate of return of 7.0%, plus an additional 0.5% to cover the cost of trust administration and GASB compliance. Nevertheless, the discount rate (discussed below) used to determine the total OPEB liability is 4.0%, reflecting the low plan fiduciary net position as a percentage of the total OPEB liability.

Discount rate. The discount rate used to measure the total OPEB liability was 4.0 percent. The projection of cash flows used to determine the discount rate assumed that District contributions will be made at rates equal to projected pay-as-you-go contributions. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

SANTA MARIA JOINT UNION HIGH SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2017

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

D. Net OPEB Liability of the District (continued)

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 (3.0 percent) or 1-percentage-point higher (5.0 percent) than the current discount rate:

	Valuation		
	1% Decrease	Discount Rate	1% Increase
	(3.0%)	(4.0%)	(5.0%)
Net OPEB liability (asset)	\$ 20,896,794	\$ 19,299,825	\$ 17,829,927

Sensitivity of the net OPEB liability to changes in the healthcare 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 (5.0 percent decreasing to 4.0 percent) or 1-percentage-point higher (7.0 percent decreasing to 6.0 percent) than the current healthcare cost trend rates:

	1% Decrease	Valuation Trend	1% Increase
	(5.0%	Rate (6.0%	(7.0%
	decreasing to	decreasing to	decreasing to
	4.0%)	5.0%)	6.0%)
Net OPEB liability (asset)	\$ 18,164,815	\$ 19,299,825	\$ 20,511,987

E. Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL) (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the District's net OPEB obligation to the Plan:

Annual required contribution	\$ 1,789,316
Interest on net OPEB obligation	441,151
Adjustment to annual required contribution	(438,296)
Annual OPEB cost (expense)	<u>1,792,171</u>
Contributions made	(1,400,156)
Increase (decrease) in net OPEB obligation	<u>392,015</u>
Net OPEB obligation, beginning of the year	11,028,787
Net OPEB obligation, end of the year	<u>\$ 11,420,802</u>

SANTA MARIA JOINT UNION HIGH SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2017

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

E. Annual OPEB Cost and Net OPEB Obligation (continued)

The annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the year ended June 30, 2017 and the preceding two years were as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
2017	\$ 1,792,171	78%	\$ 11,420,802
2016	\$ 1,887,514	76%	\$ 11,028,787
2015	\$ 1,905,806	46%	\$ 10,566,951

F. Funded Status and Funding Progress

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

Actuarial Valuation Date	Actuarial Valuation of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2016	\$ 499,174	\$ 19,177,841	\$ 18,678,667	3%	\$ 52,917,982	35%

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

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

SANTA MARIA JOINT UNION HIGH SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, *continued*
 JUNE 30, 2017

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

G. Actuarial Methods and Assumptions

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

Additional information as of the latest actuarial valuation follows:

Valuation Date	7/1/2016
Actuarial Cost Method	Entry Age
Amortization Method	Level Percent of Pay
Remaining Amortization Period	29 years
Asset Valuation	Market Value
Actuarial Assumptions:	
Investment rate of return	4.0%
Discount rate	4.0%
Health care trend rate	5.0-6.0%
Inflation rate	3.0%

SANTA MARIA JOINT UNION HIGH SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2017

NOTE 11 – PENSION PLANS

Qualified employees are covered under multiple-employer contributory retirement plans maintained by agencies of the State of California. Certificated employees are members of the California State Teachers' Retirement System (CalSTRS), and classified employees are members of the California Public Employees' Retirement System (CalPERS). The District reported its proportionate share of the net pension liabilities, pension expense, deferred outflow of resources, and deferred inflow of resources for each of the above plans as follows:

	<u>Net pension liability</u>	<u>Deferred outflows related to pensions</u>	<u>Deferred inflows related to pensions</u>	<u>Pension expense</u>
STRS Pension	\$ 54,378,051	\$ 16,682,403	\$ 8,032,701	\$ 5,690,963
PERS Pension	24,564,894	7,399,088	1,056,323	3,087,631
Total	<u>\$ 78,942,945</u>	<u>\$ 24,081,491</u>	<u>\$ 9,089,024</u>	<u>\$ 8,778,594</u>

California State Teachers' Retirement System (CalSTRS)

Plan Description

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

Benefits provided

The CalSTRS defined benefit plan has two benefit formulas:

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

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

CalSTRS 2% at 60

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

SANTA MARIA JOINT UNION HIGH SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2017

NOTE 11 – PENSION PLANS (continued)

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

Benefits provided (continued)

CalSTRS 2% at 62

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

Contributions

Active plan CalSTRS 2% at 60 and 2% at 62 members are required to contribute 10.25% and 9.205% of their salary for fiscal year 2017, respectively, and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2017 was 12.58% of annual payroll. The contribution requirements of the plan members are established by state statute. Contributions to the plan from the District were \$4,597,264 for the year ended June 30, 2017.

On-Behalf Payments

The District was the recipient of on-behalf payments made by the State of California to CalSTRS for K-12 education. These payments consist of state general fund contributions of approximately \$2,031,149 to CalSTRS.

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

At June 30, 2017, 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	\$ 54,378,051
State's proportionate share of the net pension liability associated with the District	30,961,012
Total	\$ 85,339,063

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2015, and rolling forward the total pension liability to June 30, 2016. The District’s proportion of the net pension liability was based on a projection of the District’s long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. At June 30, 2016, the District’s proportion was 0.067 percent, which was a decrease of 0.01085 percent from its proportion measured as of June 30, 2015.

SANTA MARIA JOINT UNION HIGH SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2017

NOTE 11 – PENSION PLANS (continued)

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

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

For the year ended June 30, 2017, the District recognized pension expense of \$5,690,963. In addition, the District recognized pension expense and revenue of \$5,524,163 for support provided by the State. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between projected and actual earnings on plan investments	\$ 4,323,028	\$ -
Differences between expected and actual experience	-	1,326,491
Changes in proportion and differences between District contributions and proportionate share of contributions	7,762,111	6,706,210
District contributions subsequent to the measurement date	4,597,264	-
	<u>\$ 16,682,403</u>	<u>\$ 8,032,701</u>

The \$4,597,264 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
2018	\$ 1,646,736	\$ 1,359,794
2019	1,646,736	1,359,794
2020	4,065,413	1,359,794
2021	3,173,831	1,359,794
2022	1,552,423	1,359,794
2023	-	1,233,731
	<u>\$ 12,085,139</u>	<u>\$ 8,032,701</u>

SANTA MARIA JOINT UNION HIGH SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2017

NOTE 11 – PENSION PLANS (continued)

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

Actuarial assumptions

The total pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2015, and rolling forward the total pension liability to June 30, 2016 using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

CalSTRS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are based on RP2000 series tables adjusted to fit CalSTRS experience.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2006–June 30, 2010.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best-estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant (Pension Consulting Alliance - PCA) as an input to the process. Based on the model from CalSTRS consulting actuary’s (Milliman) investment practice, a best estimate range was determined by assuming the portfolio is re-balanced annually and that annual returns are lognormally distributed and independent from year to year to develop expected percentiles for the long-term distribution of annualized returns. The assumed asset allocation by PCA is based on board policy for target asset allocation in effect on February 2, 2012, the date the current experience study was approved by the board. Best estimates of 20-year geometric real rates of return and the assumed asset allocation for each major asset class for the year ended June 30, 2016 are summarized in the following table:

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

* 20-year geometric average

SANTA MARIA JOINT UNION HIGH SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2017

NOTE 11 – PENSION PLANS (continued)

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

Discount rate

The discount rate used to measure the total pension liability was 7.60 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates in accordance with the rate increases per AB 1469. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.60 percent) and assuming that contributions, benefit payments, and administrative expense occur midyear. Based on those assumptions, the Plan’s fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

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

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

	1% Decrease (6.60%)	Current Discount Rate (7.60%)	1% Increase (8.60%)
District's proportionate share of the net pension liability	\$ 78,262,279	\$ 54,378,051	\$ 34,541,199

Pension plan fiduciary net position

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

SANTA MARIA JOINT UNION HIGH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 11 – PENSION PLANS (continued)

California Public Employees' Retirement System (CalPERS)

Plan Description

The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS); a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees' Retirement Laws. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95811.

Benefits provided

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

Contributions

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

The District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2017 was 13.888% of annual payroll. Contributions to the plan from the District were \$2,267,700 for the year ended June 30, 2017.

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

At June 30, 2017, the District reported a liability of \$24,564,894 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2015, and rolling forward the total pension liability to June 30, 2016. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. At June 30, 2016, the District's proportion was 0.124 percent, which was an increase of 0.00232 percent from its proportion measured as of June 30, 2015.

SANTA MARIA JOINT UNION HIGH SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2017

NOTE 11 – PENSION PLANS (continued)

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

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

For the year ended June 30, 2017, the District recognized pension expense of \$3,087,631. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between projected and actual earnings on plan investments	\$ 3,811,682	\$ -
Differences between expected and actual experience	1,056,526	-
Changes in assumptions	-	738,029
Changes in proportion and differences between District contributions and proportionate share of contributions	263,180	318,294
District contributions subsequent to the measurement date	2,267,700	-
	<u>\$ 7,399,088</u>	<u>\$ 1,056,323</u>

The \$2,267,700 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
2018	\$ 1,114,299	\$ 554,061
2019	1,078,168	502,262
2020	1,944,106	-
2021	994,815	-
	<u>\$ 5,131,388</u>	<u>\$ 1,056,323</u>

SANTA MARIA JOINT UNION HIGH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 11 – PENSION PLANS (continued)

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

Actuarial assumptions

The total pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2015, and rolling forward the total pension liability to June 30, 2016 using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

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

The actuarial assumptions used in the June 30, 2015, valuation were based on the results of an actuarial experience study for the period from 1997 to 2011.

The long-term expected rate of return on pension plan investments was determined using a building block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. In determining the long-term expected rate of return, both short-term and long-term market return expectations as well as the expected pension fund cash flows were taken into account. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds’ asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

SANTA MARIA JOINT UNION HIGH SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2017

NOTE 11 – PENSION PLANS (continued)

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

Actuarial assumptions (continued)

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

Asset Class	Assumed Asset Allocation	Real Return Years 1-10*	Real Return Years 11+**
Global Equity	51%	5.25%	5.71%
Global Debt Securities	20%	0.99%	2.43%
Inflation Assets	6%	0.45%	3.36%
Private Equity	10%	6.83%	6.95%
Real Estate	10%	4.50%	5.13%
Infrastructure and Forestland	2%	4.50%	5.09%
Liquidity	1%	-0.55%	-1.05%
	100%		

* An expected inflation of 2.5% used for this period

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

Discount rate

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

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

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

	1% Decrease (6.65%)	Current Discount Rate (7.65%)	1% Increase (8.65%)
District's proportionate share of the net pension liability	\$ 36,650,959	\$ 24,564,894	\$ 14,500,867

SANTA MARIA JOINT UNION HIGH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 11 – PENSION PLANS (continued)

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

Pension plan fiduciary net position

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

NOTE 12 – COMMITMENTS AND CONTINGENCIES

A. Grants

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

C. Construction Commitments

As of June 30, 2017, the District had commitments with respect to unfinished capital projects of \$17,546,271.

SANTA MARIA JOINT UNION HIGH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 13 – PARTICIPATION IN JOINT POWERS AUTHORITIES

The District participates in a joint venture under a joint powers agreement (JPA) with the Self Insurance Program for Employees (SIPE). SIPE was established to provide services necessary and appropriate for the development, operation and maintenance of a self-insurance system for workers' compensation claims against the public educational agencies who are members. The participants consist of the Santa Barbara County Office of Education and various school districts. Each participant may appoint one representative to the governing board. The governing board is responsible for establishing premium rates and making budget and operational decisions for SIPE independent of any influence by the District beyond their board member representation. Each participant shares surpluses and deficits proportionate to their participation in SIPE. In the event SIPE is terminated, the District would be liable for its proportionate share of all unpaid claims.

The relationship between the District and SIPE is such that SIPE is not a component unit of the District for financial reporting purposes.

The District participates in a joint venture under a joint powers agreement (JPA) with the Self-Insured Schools of California Property and Liability Program (SISC II). The SISC II arranges for and provides property and liability insurance for its member school districts and other educational agencies. The District pays a premium commensurate with the level of coverage required. The JPA is independently accountable for its fiscal matters. SISC II maintains its own accounting records and its budgets are not subject to any approval than that of the governing board. Member districts share surpluses and deficits proportionate to their participation in the SISC II.

The relationship between the District and SISC II is such that the SISC II is not a component unit of the District for financial reporting purposes.

The District participates in a joint venture under the joint powers agreement (JPA) with the Santa Barbara County Schools Financing Authority. The Authority's purpose is providing financing assistance for construction and acquisition of major capital facilities to its four members: The District, Goleta Union School District, Hope Elementary School District, Santa Barbara Unified School District. The Authority is governed by a board comprised of the chief business officer of each member.

The relationship between the District and the Authority is such that the Authority is not a component unit of the District for financial reporting purposes.

NOTE 14 – DEFERRED AMOUNT ON REFUNDING

Pursuant to GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, the District recognized deferred 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, 2017, the deferred amount on refunding was \$1,533,919.

SANTA MARIA JOINT UNION HIGH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 15 – RESTATEMENT OF FIDUCIARY NET POSITION

The beginning fiduciary net position for the Retiree Benefit Fund has been restated in order to record the activity in the District’s qualifying Other Postemployment Benefits trust in accordance with GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The effect on beginning fiduciary net position is presented as follows:

	Retiree Benefit Fund
Fiduciary Net Position - Beginning, as Previously Reported	\$ -
Restatement	499,173
Fiduciary Net Position - Beginning, as Restated	<u>\$ 499,173</u>

NOTE 16 – SUBSEQUENT EVENT

On August 8, 2017, the District issued Election of 2016, Series 2017 General Obligation Bonds in the amount of \$47,000,000. The bonds were issued to finance specific construction, repair and improvement projects approved by the voters of the District. The bonds were the first issuance under Measure H2016, which was authorized at an election of the voters of the District held on November 8, 2016. Interest rates range from 2.0 to 5.0 percent, and the bonds mature through August 1, 2042.

**REQUIRED SUPPLEMENTARY
INFORMATION**

**SANTA MARIA JOINT UNION HIGH SCHOOL DISTRICT
GENERAL FUND – BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2017**

	Budgeted Amounts		Actual* (Budgetary Basis)	Variances - Final to Actual
	Original	Final		
REVENUES				
LCFF sources	\$ 79,940,681	\$ 79,224,588	\$ 79,313,375	\$ 88,787
Federal sources	4,125,878	4,775,087	4,225,407	(549,680)
Other state sources	10,106,764	11,502,237	8,081,489	(3,420,748)
Other local sources	483,659	860,878	3,801,990	2,941,112
Total Revenues	94,656,982	96,362,790	95,422,261	(940,529)
EXPENDITURES				
Certificated salaries	37,345,037	38,492,969	38,467,417	25,552
Classified salaries	15,456,568	15,672,090	15,672,030	60
Employee benefits	20,361,487	20,542,679	19,584,506	958,173
Books and supplies	6,614,235	10,480,662	7,798,726	2,681,936
Services and other operating expenditures	11,058,242	12,527,469	10,899,941	1,627,528
Capital outlay	2,130,361	1,668,929	1,170,816	498,113
Other outgo				
Excluding transfers of indirect costs	401,182	475,437	475,433	4
Transfers of indirect costs	(167,630)	(107,430)	(107,430)	-
Total Expenditures	93,199,482	99,752,805	93,961,439	5,791,366
Excess (Deficiency) of Revenues Over Expenditures	1,457,500	(3,390,015)	1,460,822	4,850,837
Other Financing Sources (Uses)				
Transfers out	(2,135,600)	(1,969,240)	(1,969,240)	-
Net Financing Sources (Uses)	(2,135,600)	(1,969,240)	(1,969,240)	-
NET CHANGE IN FUND BALANCE	(678,100)	(5,359,255)	(508,418)	4,850,837
Fund Balance - Beginning	10,726,267	10,726,267	10,726,267	-
Fund Balance - Ending	\$ 10,048,167	\$ 5,367,012	\$ 10,217,849	\$ 4,850,837

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

- Actual amounts reported in this schedule are for the General Fund only, and do not agree with the amounts reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances because the amounts on that schedule include the financial activity of the Deferred Maintenance Fund and Special Reserve Fund for Other than Capital Outlay Projects in accordance with the fund type definitions promulgated by GASB Statement No. 54.

**SANTA MARIA JOINT UNION HIGH SCHOOL DISTRICT
SCHEDULE OF CHANGES IN THE DISTRICT'S NET OPEB LIABILITY
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>June 30, 2017</u>
Total OPEB Liability	
Service Cost	\$ 1,047,008
Interest on total OPEB liability	755,725
Changes of benefit terms	-
Difference between expected and actual experience	-
Changes of assumptions	-
Benefits payments	(575,069)
Net change in total OPEB liability	<u>1,227,664</u>
Total OPEB liability - beginning	19,177,841
Total OPEB liability - ending (a)	<u>\$ 20,405,505</u>
 Plan fiduciary net position	
Contributions - employer	\$ 1,098,502
Net investment income	92,913
Benefit payments	(575,069)
Administrative expenses	(9,839)
Net change in plan fiduciary net position	<u>606,507</u>
Plan fiduciary net position - beginning	499,173
Plan fiduciary net position - ending (b)	<u>\$ 1,105,680</u>
 District's net OPEB liability - ending (a) - (b)	<u>\$ 19,299,825</u>
 Plan fiduciary net position as a percentage of the total OPEB liability	 5.42%
 Covered payroll	 \$ 52,917,982
 District's net OPEB liability (asset) as a percentage of covered payroll	 36.47%

See accompanying note to required supplementary information.

**SANTA MARIA JOINT UNION HIGH SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS - OPEB
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>June 30, 2017</u>
Actuarially determined contribution	\$ 1,789,316
Contributions in relation to the actuarially determined contribution	<u>(1,098,502)</u>
Contribution deficiency (excess)	<u>\$ 690,814</u>
Covered payroll	\$ 52,917,982
Contributions as a percentage of covered payroll	2.1%

See accompanying note to required supplementary information.

SANTA MARIA JOINT UNION HIGH SCHOOL DISTRICT
SCHEDULE OF INVESTMENT RETURNS - OPEB
FOR THE YEAR ENDED JUNE 30, 2017

	<u>June 30, 2017</u>
Annual money-weighted rate of return, net of investment expense	12.19%

See accompanying note to required supplementary information.

**SANTA MARIA JOINT UNION HIGH SCHOOL DISTRICT
SCHEDULE OF FUNDING PROGRESS
FOR THE YEAR ENDED JUNE 30, 2017**

Actuarial Valuation Date	Actuarial Valuation of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2016	\$ 499,174	\$ 19,177,841	\$ 18,678,667	3%	\$ 52,917,982	35%
July 1, 2014	\$ -	\$ 15,802,440	\$ 15,802,440	0%	\$ 45,578,778	35%
July 1, 2012	\$ -	\$ 14,416,969	\$ 14,416,969	0%	\$ 53,538,923	27%

See accompanying note to required supplementary information.

**SANTA MARIA JOINT UNION HIGH SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
- CALSTRS
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
District's proportion of the net pension liability	0.067%	0.078%	0.063%
District's proportionate share of the net pension liability	\$ 54,378,051	\$ 52,565,572	\$ 36,716,060
State's proportionate share of the net pension liability associated with the District	30,961,012	27,801,318	22,170,742
Total	<u>\$ 85,339,063</u>	<u>\$ 80,366,890</u>	<u>\$ 58,886,802</u>
District's covered payroll	\$ 36,539,110	\$ 35,730,669	\$ 33,410,822
District's proportionate share of the net pension liability as a percentage of its covered payroll	148.8%	147.1%	109.9%
Plan fiduciary net position as a percentage of the total pension liability	70.0%	74.0%	76.5%

See accompanying note to required supplementary information.

**SANTA MARIA JOINT UNION HIGH SCHOOL DISTRICT
 SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
 - CALPERS
 FOR THE YEAR ENDED JUNE 30, 2017**

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
District's proportion of the net pension liability	0.124%	0.122%	0.125%
District's proportionate share of the net pension liability	\$ 24,564,894	\$ 17,991,886	\$ 14,228,748
District's covered payroll	\$ 16,335,975	\$ 14,903,270	\$ 13,260,708
District's proportionate share of the net pension liability as a percentage of its covered payroll	150.4%	120.7%	107.3%
Plan fiduciary net position as a percentage of the total pension liability	73.9%	79.4%	83.4%

See accompanying note to required supplementary information.

**SANTA MARIA JOINT UNION HIGH SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS - CALSTRS
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Contractually required contribution	\$ 4,597,264	\$ 3,779,720	\$ 2,966,081
Contributions in relation to the contractually required contribution*	(4,597,264)	(3,779,720)	(2,966,081)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 36,539,110	\$ 35,730,669	\$ 33,410,822
Contributions as a percentage of covered payroll	12.58%	10.58%	8.88%

*Amounts do not include on behalf contributions

**SANTA MARIA JOINT UNION HIGH SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS - CALPERS
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Contractually required contribution	\$ 2,267,700	\$ 1,766,873	\$ 1,592,152
Contributions in relation to the contractually required contribution	(2,267,700)	(1,766,873)	(1,592,152)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 16,335,975	\$ 14,903,270	\$ 13,260,708
Contributions as a percentage of covered payroll	13.88%	11.86%	12.01%

See accompanying note to required supplementary information.

**SANTA MARIA JOINT UNION HIGH SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2017**

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 the District's Net OPEB Liability

This 10-year schedule is required by GASB Statement No. 74 for all single-employer and cost-sharing other postemployment benefits (OPEB) plans. Until a full 10-year trend is compiled, the schedule will only show those years under which GASB Statement No. 74 was applicable. The schedule presents the sources of changes in the net OPEB liability, information about the components of the net OPEB liability and related ratios, including the OPEB plan's fiduciary net position as a percentage of the total OPEB liability, and the net OPEB liability as a percentage of the covered payroll.

Schedule of District Contributions – OPEB

This 10-year schedule is required by GASB Statement No. 74 for employers or non-employer contributing entities in a single-employer or cost-sharing OPEB plan for which an actuarially determined contribution is calculated. Until a full 10-year trend is compiled, the schedule will only show those years under which GASB Statement No. 74 was applicable. The schedule presents information about the actuarially determined contribution, contributions to the OPEB plan, and related ratios.

Schedule of Investment Returns – OPEB

This 10-year schedule is required by GASB Statement No. 74 for all defined benefit OPEB plans. Until a full 10-year trend is compiled, the schedule will only show those years under which GASB Statement No. 74 was applicable. The schedule presents the annual money-weighted rate of return on OPEB plan investments for each year.

Schedule of Funding Progress

This schedule is required by GASB Statement No. 45 for all sole and agent employers that provide other postemployment benefits (OPEB). The schedule presents, for the most recent actuarial valuation and the two preceding valuations, information about the funding progress of the plan, including, for each valuation, the actuarial valuation date, the actuarial value of assets, the actuarial accrued liability, the total unfunded actuarial liability (or funding excess), the actuarial value of assets as a percentage of the actuarial accrued liability (funded ratio), the annual covered payroll, and the ratio of the total unfunded actuarial liability (or funding excess) to annual covered payroll.

**SANTA MARIA JOINT UNION HIGH SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION, continued
FOR THE YEAR ENDED JUNE 30, 2017**

NOTE 1 – PURPOSE OF SCHEDULES (CONTINUED)

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

This 10-year schedule is required by GASB Statement No. 68 for each cost-sharing pension plan. Until a full 10-year trend is compiled, the schedule will only show those years under which GASB Statement No. 68 was applicable. The schedule presents the District’s proportion (percentage) of the collective net pension liability, the District’s proportionate share (amount) of the collective net pension liability, the District’s covered-payroll, the District’s proportionate share (amount) of the collective net pension liability as a percentage of the employer’s covered-payroll, and the pension plan’s fiduciary net position as a percentage of the total pension liability.

Schedule of District Contributions

This 10-year schedule is required by GASB Statement No. 68 for each cost-sharing pension plan. Until a full 10-year trend is compiled, the schedule will only show those years under which GASB Statement No. 68 was applicable. The schedule presents the District’s statutorily or contractually required employer contribution, the amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution, the difference between the statutorily or contractually required employer contribution and the amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution, the District’s covered payroll, and the amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution as a percentage of the District’s covered-payroll.

NOTE 2 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended June 30, 2017, the District incurred no excesses of expenditures over appropriations in the General Fund.

**SUPPLEMENTARY
INFORMATION**

**SANTA MARIA JOINT UNION HIGH SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017**

Federal Grantor/Pass-Through Grantor/Program or Cluster	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U. S. DEPARTMENT OF EDUCATION:			
<i>Passed through California Department of Education:</i>			
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329	\$ 1,749,452
Title I, Migrant Education	84.011	14838	551,450
Title II, Part A, Teacher Quality	84.367	14341	214,990
Title III			
Title III, English Learner Student Program	84.365	14346	111,070
Title III, Immigrant Education Program	84.365	15146	3,100
Subtotal Title III			<u>114,170</u>
IDEA Basic Local Assistance Entitlement, Part B, Sec 611	84.027	13379	1,213,138
Vocational Programs: Voc & Appl Tech Secondary II C, Sec 131 (Carl Perkins Act)	84.048	14893	252,886
AP Test Fee Program	84.184E	*	750
Total U. S. Department of Education			<u><u>4,096,836</u></u>
U. S. DEPARTMENT OF AGRICULTURE:			
<i>Passed through California Department of Education:</i>			
Child Nutrition Cluster			
School Breakfast Program - Needy	10.553	13526	752,736
National School Lunch Program	10.555	13391	1,861,780
Subtotal Child Nutrition Cluster			<u>2,614,516</u>
Forest Reserve Funds	10.665	10044	372
Total U. S. Department of Agriculture			<u><u>2,614,888</u></u>
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
<i>Passed through California Department of Health Services:</i>			
Medi-Cal Billing Option	93.778	10013	287,709
Total U. S. Department of Health & Human Services			<u>287,709</u>
Total Federal Expenditures			<u><u>\$ 6,999,433</u></u>

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

**SANTA MARIA JOINT UNION HIGH SCHOOL DISTRICT
 SCHEDULE OF AVERAGE DAILY ATTENDANCE (ADA)
 FOR THE YEAR ENDED JUNE 30, 2017**

	Second Period Report	Annual Report
SCHOOL DISTRICT		
Ninth through Twelfth		
Regular ADA	7,385.32	7,333.68
Extended Year Special Education	7.09	7.09
Special Education - Nonpublic Schools	3.76	3.72
Total Ninth through Twelfth	<u>7,396.17</u>	<u>7,344.49</u>
TOTAL SCHOOL DISTRICT	<u>7,396.17</u>	<u>7,344.49</u>

**SANTA MARIA JOINT UNION HIGH SCHOOL DISTRICT
 SCHEDULE OF INSTRUCTIONAL TIME
 FOR THE YEAR ENDED JUNE 30, 2017**

Grade Level	Minutes Requirement	2016-17 Actual Minutes	Number of Days	Status
Grade 9	64,800	69,555	180	Complied
Grade 10	64,800	69,555	180	Complied
Grade 11	64,800	69,555	180	Complied
Grade 12	64,800	69,555	180	Complied

**SANTA MARIA JOINT UNION HIGH SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017**

	2018 (Budget)	2017	2016	2015
General Fund - Budgetary Basis**				
Revenues And Other Financing Sources	\$ 98,126,566	\$ 95,422,261	\$ 93,432,122	\$ 78,671,744
Expenditures And Other Financing Uses	96,747,465	95,930,679	88,449,755	81,533,714
Net change in Fund Balance	\$ 1,379,101	\$ (508,418)	\$ 4,982,367	\$ (2,861,970)
Ending Fund Balance	\$ 11,596,950	\$ 10,217,849	\$ 10,726,267	\$ 5,743,900
Available Reserves*	\$ 4,470,021	\$ 4,451,445	\$ 4,175,917	\$ 2,711,486
Available Reserves As A Percentage Of Outgo	4.62%	4.64%	4.72%	3.33%
Long-term Debt	\$ 182,681,345	\$ 187,994,802	\$ 183,856,675	\$ 168,658,595
Average Daily Attendance At P-2	7,527	7,396	7,431	7,325

The General Fund balance has increased by \$4,473,949 over the past two years. The fiscal year 2017-18 budget projects an increase of \$1,379,101. For a District this size, the State recommends available reserves of at least 3% of General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating deficits in two of the past three years and anticipates incurring an operating surplus during the 2017-18 fiscal year. Total long term obligations have increased by \$19,336,207 over the past two years.

Average daily attendance has increased by 71 ADA over the past two years. An increase of 131 ADA is anticipated during the 2017-18 fiscal year.

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

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

**SANTA MARIA JOINT UNION HIGH SCHOOL DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

	General Fund	Deferred Maintenance Fund	Special Reserve Fund for Other Than Capital Outlay Projects
June 30, 2017, annual financial and budget report fund balance	\$ 10,217,849	\$ 492,460	\$ 1,210,668
Adjustments and reclassifications:			
Increase (decrease) in total fund balances:			
Fund balance transfer (GASB 54)	1,703,128	(492,460)	(1,210,668)
Net adjustments and reclassifications	1,703,128	(492,460)	(1,210,668)
June 30, 2017, audited financial statement fund balance	<u>\$ 11,920,977</u>	<u>\$ -</u>	<u>\$ -</u>

SANTA MARIA JOINT UNION HIGH SCHOOL DISTRICT
SCHEDULE OF CHARTER SCHOOLS
FOR THE YEAR ENDED JUNE 30, 2017

The District is not a sponsoring local educational agency for any charter schools.

**SANTA MARIA JOINT UNION HIGH SCHOOL DISTRICT
 LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
 JUNE 30, 2017**

The Santa Maria Joint Union High School District (the “District”) is located in Santa Barbara County, California. The District was established in 1891. There were no changes in the boundaries of the District during the current year. During the 2016-17 school year, the District maintained three high schools and one continuation high school.

GOVERNING BOARD

Member	Office	Term Expires
Dr. Carol Karamitsos	President	December 2018
Ms. Diana Perez	Clerk	December 2018
Dr. Jack Garvin	Member	December 2020
Ms. Amy Lopez	Member	December 2020
Mr. Dominick Palera	Member	December 2018

DISTRICT ADMINISTRATORS

Dr. Mark Richardson
Superintendent

Mr. John Davis
Assistant Superintendent Curriculum/Instruction

Mr. Kevin Platt
Assistant Superintendent of Human Resources

Ms. Yolanda Ortiz
Assistant Superintendent of Business

Ms. Brenda Hoff
Director of Fiscal Services

**SANTA MARIA JOINT UNION HIGH SCHOOL DISTRICT
 NOTES TO SUPPLEMENTARY INFORMATION
 JUNE 30, 2017**

NOTE 1 – PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

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

The following schedule provides reconciliation between revenues reported on the Statement of Revenue, Expenditures, and Changes in Fund Balance, and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts represent Federal funds that have been recorded as revenues in a prior year that have been expended by June 30, 2017 or Federal funds that have been recorded as revenues in the current year and were not expended by June 30, 2017.

	CFDA Number	Amount
Total Federal Revenues reported in the Statement of Revenues, Expenditures, and Changes in Fund Balance		\$ 6,839,923
Medi-Cal Billing Option	93.778	159,510
Total Expenditures reported in the Schedule of Expenditures of Federal Awards		<u>\$ 6,999,433</u>

The District has not elected to use the 10 percent de minimis indirect cost rate.

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of *Education Code Sections 46200 through 46208*. During the year ended June 30, 2017, the District participated in the Longer Day incentive funding program. As of June 30, 2017, the District had not yet met its target funding.

**SANTA MARIA JOINT UNION HIGH SCHOOL DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION, continued
JUNE 30, 2017**

NOTE 1 – PURPOSE OF SCHEDULES (continued)

Schedule of Financial Trends and Analysis

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

Schedule of Charter Schools

This schedule lists all Charter Schools operating within the District's enrollment boundaries, and displays information for each Charter School on whether or not the Charter School is included in the District audit.

Local Education Agency Organization Structure

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

**OTHER INDEPENDENT
AUDITORS' REPORTS**

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

Christy White, CPA

Michael Ash, CPA

Heather Rubio

Independent Auditors' Report

Governing Board
Santa Maria Joint Union High School District
Santa Maria, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Santa Maria Joint Union High School District, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Santa Maria Joint Union High School District's basic financial statements, and have issued our report thereon dated November 20, 2017.

Internal Control over Financial Reporting

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

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

SAN DIEGO
LOS ANGELES
SAN FRANCISCO/BAY AREA

Corporate Office:
348 Olive Street
San Diego, CA 92103

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

Licensed by the California
State Board of Accountancy

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

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.

Christy White Associates

San Diego, California
November 20, 2017

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

Independent Auditors' Report

Christy White, CPA

Michael Ash, CPA

Heather Rubio

Governing Board
Santa Maria Joint Union High School District
Santa Maria, California

Report on Compliance for Each Major Federal Program

We have audited Santa Maria Joint Union High School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Santa Maria Joint Union High School District's major federal programs for the year ended June 30, 2017. Santa Maria Joint Union High School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Santa Maria Joint Union High School District's compliance.

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SAN FRANCISCO/BAY AREA

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Opinion on Each Major Federal Program

In our opinion, Santa Maria Joint Union High School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control Over Compliance

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

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

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

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

Christy White Associates

San Diego, California
November 20, 2017

REPORT ON STATE COMPLIANCE

Independent Auditors' Report

Christy White, CPA

Michael Ash, CPA

Heather Rubio

Governing Board
Santa Maria Joint Union High School District
Santa Maria, California

Report on State Compliance

We have audited Santa Maria Joint Union High School District's compliance with the types of compliance requirements described in the *2016-17 Guide for Annual Audits of K-12 Local Education 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 Santa Maria Joint Union High School District's state programs for the fiscal year ended June 30, 2017, as identified below.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Santa Maria Joint Union High School District's state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2016-17 Guide for Annual Audits of K-12 Local Education 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 noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the state programs noted below occurred. An audit includes examining, on a test basis, evidence about Santa Maria Joint Union High School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance with the requirements referred to above. However, our audit does not provide a legal determination of Santa Maria Joint Union High School District's compliance with those requirements.

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LOS ANGELES
SAN FRANCISCO/BAY AREA

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348 Olive Street
San Diego, CA 92103

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Opinion on State Compliance

In our opinion, Santa Maria Joint Union High School District complied, in all material respects, with the types of compliance requirements referred to above that are applicable to the state programs noted in the table below for the year ended June 30, 2017.

Procedures Performed

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

<u>PROGRAM NAME</u>	<u>PROCEDURES PERFORMED</u>
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Not Applicable
Independent Study	Yes
Continuation Education	Yes
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	Not Applicable
Transportation Maintenance of Effort	Yes
Mental Health Expenditures	Yes
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes

PROGRAM NAME	PROCEDURES PERFORMED
After School Education and Safety Program	Not Applicable
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study-Course Based	Not Applicable
Immunizations	Yes
Attendance; for charter schools	Not Applicable
Mode of Instruction; for charter schools	Not Applicable
Nonclassroom-Based Instruction/Independent Study; for charter schools	Not Applicable
Determination of Funding for Nonclassroom-Based Instruction; for charter schools	Not Applicable
Annual Instructional Minutes – Classroom Based; for charter schools	Not Applicable
Charter School Facility Grant Program	Not Applicable

Christy White Associates

San Diego, California
November 20, 2017

**SCHEDULE OF FINDINGS
AND QUESTIONED COSTS**

**SANTA MARIA JOINT UNION HIGH SCHOOL DISTRICT
SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2017**

FINANCIAL STATEMENTS

Type of auditors' report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>None Reported</u>
Non-compliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

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

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>	
84.010	Title I, Part A, Basic Grants	
Dollar threshold used to distinguish between Type A and Type B programs:	\$	<u>750,000</u>
Auditee qualified as low-risk auditee?		<u>Yes</u>

STATE AWARDS

Internal control over state programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>None Reported</u>
Type of auditors' report issued on compliance for state programs:	<u>Unmodified</u>

SANTA MARIA JOINT UNION HIGH SCHOOL DISTRICT
FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017

FIVE DIGIT CODE

20000

30000

AB 3627 FINDING TYPE

Inventory of Equipment

Internal Control

There were no financial statement findings for the year ended June 30, 2017.

SANTA MARIA JOINT UNION HIGH SCHOOL DISTRICT
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017

FIVE DIGIT CODE

50000

AB 3627 FINDING TYPE

Federal Compliance

There were no audit findings and questioned costs related to federal awards during the year ended June 30, 2017.

**SANTA MARIA JOINT UNION HIGH SCHOOL DISTRICT
STATE AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017**

FIVE DIGIT CODE

10000
40000
42000
60000
61000
62000
70000
71000
72000

AB 3627 FINDING TYPE

Attendance
State Compliance
Charter School Facilities Programs
Miscellaneous
Classroom Teacher Salaries
Local Control Accountability Plan
Instructional Materials
Teacher Misassignments
School Accountability Report Card

There were no audit findings and questioned costs related to State awards during the year ended June 30, 2017.

**SANTA MARIA JOINT UNION HIGH SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017**

FINDING #2016-1 – UNDUPLICATED LOCAL CONTROL FUNDING FORMULA PUPIL COUNTS (40000)

Criteria: Students classified as free or reduced price meal eligible (FRPM) and who are not directly certified on the CalPADS 1.18 FRPM/English Learner/Foster Youth – Student List Report must have supporting documentation that indicates the student was eligible for the determination. Auditors are required to verify compliance with Education Code Section 42238.02(b)(3)(b) in Section W of the *2015-16 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*.

Condition: Four (4) of 79 students tested from the CalPADS 1.18 FRPM/English Learner/Foster Youth – Student List Report who were classified as FRPM did not have proper supporting documentation to justify their designation. Each of the students in question were selected for NSLP Income Verification and were changed to “Paid” status as a result of verification procedures. Upon further testing of 100% of the NSLP Income Verification sample selected for 2015-16, we identified an additional 85 students without proper supporting documentation for a total of 89 ineligible students.

Cause: Incorrect classification of students.

Effect: The District is not in compliance with State requirements.

Context: 89 of 17,570 (6,019 in 2013-14, 5,542 in 2014-15 and 6,009 in 2015-16) students reported in the District’s Unduplicated Pupil Count did not have proper supporting documentation to support their FRPM designation.

SANTA MARIA JOINT UNION HIGH SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, continued
FOR THE YEAR ENDED JUNE 30, 2017

FINDING #2016-1 – UNDUPLICATED LOCAL CONTROL FUNDING FORMULA PUPIL COUNTS (40000) (continued)

Questioned Cost: \$91,868, as calculated below.

UPP Audit Adjustment		Section 1: Regular UPP	Section 2: Alternate UPP*
1	Total Adjusted Enrollment from the UPP exhibit as of P-2	23,542	23,580
2	Total Adjusted Unduplicated Pupil Count from the UPP exhibit as of P-2	17,570	17,093
3	Number of Unduplicated Pupil Count audit adjustment		(89)
4	Revised Adjusted Unduplicated Pupil Count	17,481	17,004
5	UPP calculated as of P-2	0.7463	0.7249
6	Revised UPP for audit finding	0.7425	0.7211
7	Greater of Revised UPP for audit finding from Section 1 or 2		0.7425
8	Charter Schools Only: Determinative School District Concentration Cap		-
9	Revised UPP adjusted for Concentration Cap		0.7425
LCFF Target Base Grant Funding		Estimated Values	
10	Total Base Grant Funding as of P-2	\$65,712,402	
LCFF Target Supplemental Grant Funding Audit Adjustment			
11	Target Supplemental Grant Funding calculated as of P-2	\$9,808,233	
12	Revised Target Supplemental Grant Funding for audit finding	\$9,758,292	
13	Target Supplemental Grant Funding audit adjustment	(\$49,941)	
LCFF Target Concentration Grant Funding Audit Adjustment			
14	Target Concentration Grant Funding calculated as of P-2	\$6,449,672	
15	Revised Target Concentration Grant Funding for audit finding	\$6,324,819	
16	Target Concentration Grant Funding audit adjustment	(\$124,853)	
Estimated Cost of Unduplicated Pupil Count Audit Adjustment for LEAs funded at LCFF Target			
17	Total Target Supplemental and Concentration audit adjustment	(\$174,794)	
Estimated Cost of Unduplicated Pupil Count Audit Adjustment for LEAs funded on LCFF Floor and Gap			
18	Statewide Gap Funding Rate as of P-2	0.5255761597	
21	Estimated Cost of Unduplicated Pupil Count audit adjustment	(\$91,868)	

SANTA MARIA JOINT UNION HIGH SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, *continued*
FOR THE YEAR ENDED JUNE 30, 2017

FINDING #2016-1 – UNDUPLICATED LOCAL CONTROL FUNDING FORMULA PUPIL COUNTS (40000) (continued)

Recommendation: We recommend that the District ensure that all changes in FRPM eligibility based on outcome of NSLP Income Verification are accurately reflected in the CalPADS 1.18 FRPM/English Learner/Foster Youth – Student List Report following the completion of procedures and prior to the close of the fall amendment window.

District Response: This finding results from the re-verification process that is required to be completed each year by November 15. The process was done, and the student records appropriately marked in the District’s point of sale system (“Nutrikids”) that contains the eligibility status for the National School Lunch Program (NSLP). However, District staff responsible for the record keeping involved with the re-verification process were unaware of the requirement to record any needed changes in CalPADS. Furthermore, there is no interface between Nutrikids and CalPADS that would allow for a direct data transfer. So the only way to recognize any needed changes in CalPADS is by manual data entry, and by the time the District became aware of the problem for the 2015-16 school year, the applicable and available amendment windows for this type of data in CalPADS had closed.

The District has already had collaborative meetings on this subject and developed a process for the subsequent years. Staff responsible for the re-verification process will keep a list of applicants selected, and make notations as needed for changes in status. This list will be forwarded to staff responsible for CalPADS maintenance, and they will then make any needed changes in CalPADS data manually, prior to the certification deadline.

Current Status: Implemented.