

**McSWAIN UNION ELEMENTARY
SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2017

MCSWAIN UNION ELEMENTARY SCHOOL DISTRICT

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JUNE 30, 2017

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FINANCIAL SECTION



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

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INDEPENDENT AUDITOR'S REPORT

Governing Board
McSwain Union Elementary School District
Merced, 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 McSwain Union Elementary School District (the District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2016-2017 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 12, budgetary comparison schedule on page 57, schedule of other postemployment benefits funding progress on page 58, schedule of the district's proportionate share of net pension liability on page 59, and the schedule of district contributions on page 60, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the McSwain Union Elementary School District's basic financial statements. The accompanying supplementary information such as the combining and individual non-major fund financial statements and the other supplementary information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2017, on our consideration of the McSwain Union Elementary School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of McSwain Union Elementary School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering McSwain Union Elementary School District's internal control over financial reporting and compliance.

Vannink, Trine, Day & Co., LLP

Fresno, California
November 22, 2017



McSwain Union Elementary School District

Office of the Superintendent
Dr. Steve Rosa

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

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

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

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

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

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

The *Fiduciary Funds* are agency funds, which only report a balance sheet and do not have a measurement focus.

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

The Primary unit of the government is the McSwain Union Elementary School District.

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Position and the Statement of Activities

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

MCSWAIN UNION ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2017

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

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

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

Governmental Activities - The District reports all of its services in this category. This includes the education of kindergarten through grade eight students, and the on-going effort to improve and maintain buildings and sites. Property taxes, State income taxes, user fees, interest income, Federal, State, and local grants, as well as certificates of participation, finance these activities.

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

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

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

MCSWAIN UNION ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2017

THE DISTRICT AS A TRUSTEE

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or *fiduciary*, for funds held on behalf of others, like our funds for associated student body activities, scholarships, employee retiree benefits, and pensions. The District's fiduciary activities are reported in the *Statements of Fiduciary Net Position*. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

THE DISTRICT AS A WHOLE

Net Position

The District's net position was \$8.9 million for the fiscal year ended June 30, 2017. Of this amount, \$0.4 million was restricted. 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 net position for day-to-day operations. Our analysis below, in summary form, focuses on the net position (Table 1) and change in net position (Table 2) of the District's governmental activities.

Table 1

(Amounts in millions)	Governmental Activities		
	2017	2016	Variance
Assets			
Current and other assets	\$ 4.3	\$ 3.9	\$ 0.4
Capital assets	15.6	16.1	(0.5)
Total Assets	19.9	20.0	(0.1)
Deferred Outflows of Resources	1.3	1.1	0.2
Liabilities			
Current liabilities	0.4	0.3	0.1
Long-term obligations	4.7	4.8	(0.1)
Net pension liability	6.9	5.8	1.1
Total Liabilities	12.0	10.9	1.1
Deferred Inflows of Resources	0.3	1.1	(0.8)
Net Position			
Net investment in capital assets	11.3	11.7	(0.4)
Restricted	0.4	0.4	-
Unrestricted	(2.8)	(3.0)	0.2
Total Net Position	\$ 8.9	\$ 9.1	\$ (0.2)

MCSWAIN UNION ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2017

The \$8.9 million in net position of governmental activities represents the accumulated results of all past years' operations. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – increased by 6.7 percent (\$2.8 million compared to \$(3.0) million).

Changes in Net Position

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

Table 2

(Amounts in millions)	Governmental Activities		
	2017	2016	Variance
Revenues			
Program revenues:			
Charges for services	\$ 0.1	\$ 0.1	\$ -
Operating grants and contributions	1.1	1.2	(0.1)
General revenues:			
Federal and State aid not restricted	5.6	5.6	-
Property taxes	1.8	1.7	0.1
Other general revenues	0.2	0.3	(0.1)
Total Revenues	<u>8.8</u>	<u>8.9</u>	<u>(0.1)</u>
Expenses			
Instruction-related	6.2	5.5	0.7
Student support services	0.8	0.7	0.1
Administration	0.8	0.7	0.1
Plant services	0.9	0.9	-
Other	0.3	0.4	(0.1)
Total Expenses	<u>9.0</u>	<u>8.2</u>	<u>0.8</u>
Change in Net Position	<u>\$ (0.2)</u>	<u>\$ 0.7</u>	<u>\$ (0.9)</u>

Governmental Activities

As reported in the *Statement of Activities*, the cost of all of our governmental activities this year was \$9.0 million. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$1.8 million because the cost was paid by those who benefited from the programs (\$0.1 million) or by other governments and organizations who subsidized certain programs with grants and contributions (\$1.1 million). We paid for the remaining "public benefit" portion of our governmental activities with \$5.8 million in State funds and other revenues, like interest and general entitlements.

MCSWAIN UNION ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2017

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

Table 3

(Amounts in millions)	Total Cost of Services		Net Cost of Services	
	2017	2016	2017	2016
Instruction-related	\$ 6.2	\$ 5.5	\$ 5.3	\$ 4.5
Student support services	0.8	0.7	0.5	0.5
Administration	0.8	0.7	0.7	0.6
Plant services	0.9	0.9	0.9	0.9
Other	0.3	0.4	0.3	0.4
Total	\$ 9.0	\$ 8.2	\$ 7.7	\$ 6.9

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$3.9 million, which is an increase of \$0.3 million from last year (Table 4).

Table 4

(Amounts in thousands)	Fund Balances		
	June 30, 2017	June 30, 2016	Variance
General	\$ 3,250	\$ 3,039	\$ 211
Cafeteria	28	13	15
Building	46	37	9
Capital Facilities	-	35	(35)
Special Reserve Capital Outlay	535	426	109
Capital Projects Blended Component Units	8	49	(41)
Total	\$ 3,867	\$ 3,599	\$ 268

While the General Fund revenue decreased by \$150 thousand over prior year and expenses increased by \$602 thousand over the prior year, the General fund ending balance still increased by \$211 thousand because current year revenue was more than current year expenditures. The remaining District Funds showed small changes primarily due to capital outlay and debt service activity.

MCSWAIN UNION ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2017

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final amendment to the budget was adopted on March 14, 2017. A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in our annual report.

- Significant revenue revisions were made to the 2016-2017 Budget in the following areas: LCFF Sources increased due to final calculation. Other State Revenue decreased slightly. Other Local Revenue increased due to donations from local community and receipt of E-rate program funds and discounts. The overall General Fund revenue budget increased by more than \$200,000.
- Budgeted expenditures increased nearly \$270,000 in the following areas: Salary and benefits costs increased due to staffing changes. Books & Supplies increased due to textbook and reference materials. Services & Operating Expenses increased due to unexpected events that required professional services. Capital Outlay remained the same.

The District originally projected a deficit of \$66 thousand in the General Fund for 2016-2017. However, revenues and other sources were \$269 thousand more than expected and expenditures and other uses were \$8 thousand less than expected resulting in an increase to the fund of \$211 thousand.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2017, the District had \$15.6 million in a broad range of capital assets (net of depreciation), including land, construction in progress, buildings, furniture, and equipment. This amount represents a net decrease (including additions, deductions, and depreciation) of \$0.5 million, or 3.1 percent, from last year (Table 5).

Table 5

(Amounts in millions)	Governmental Activities	
	2017	2016
Land and construction in progress	\$ 0.5	\$ 0.4
Buildings and improvements	14.8	15.3
Equipment	0.3	0.4
Total	\$ 15.6	\$ 16.1

We present more detailed information about our capital assets in the Notes to Financial Statements.

MCSWAIN UNION ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2017

Long-Term Obligations

At the end of this year, the District had \$4.7 million in long-term obligations and \$4.8 million in the prior year. Those obligations consisted of:

Table 6

(Amounts in millions)

	Governmental Activities	
	2017	2016
Certificates of participation	\$ 4.4	\$ 4.5
Other	0.3	0.3
Total	\$ 4.7	\$ 4.8

The District's certificates of participation S&P rating at the time of their last issuance was "AAA".

Other obligations include compensated absences and other postemployment benefits. We present more detailed information regarding our long-term obligations in the Notes to Financial Statements.

Net Pension Liability (NPL)

As of June 30, 2015, the District implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, which required the District to recognize its proportionate share of the unfunded pension obligation for CalSTRS and CalPERS. As of June 30, 2017, the District reported Deferred Outflows from pension activities of \$1.3 million, Deferred Inflows from pension activities of \$0.3 million, and a Net Pension Liability of \$6.9 million. We present more detailed information regarding our net pension liability in the Notes to Financial Statements.

SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2016-2017 ARE NOTED BELOW:

In 2016-2017, the District installed new carpeting and tile, completed painting in a 4 classroom wing on East campus. A full remodel of the District office and a partial remodel of the previous district office were completed. Completed roof repairs on both school sites. Purchased new cafeteria tables for the East Cafeteria lunchroom. Purchased a new golf cart with attached warmer, two warming units and a new walk in freezer for the cafeteria on East campus. Removed cement work on East Campus that was damaged and had become a hazard. Many repairs to HVAC, roofing, and lighting fixtures were also completed. A School garden project was also started and will be continuing to expand each year. Added 1.0 FTE as a math clinician to support the LCAP Goals associated with EL students. We also increased 1.0 FTE as a 2nd and 3rd grade combo teacher to offset the increase enrollment. Completed implementation of one to one Chromebooks with the assistance of the McSwain Education Foundation. Purchased iPad sets of six for TK-2nd grade to enhance curriculum delivery as outlined in the LCAP.

MCSWAIN UNION ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2017

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In considering the District Budget for the 2017-2018 year, the governing board and management used the following criteria:

The key assumptions in our forecast are: The 2016-2017 budget was developed conservatively projecting declining enrollment in the budget and first subsequent year. The District utilizes the FCMAT LCFF revenue calculations and adheres to the Department of Finance's recommended gap funding rates. The FCMAT calculator incorporates COLA and CPI rates and applies the District's projected 20 percent supplemental grants based on an unduplicated student population of 38 percent. The District continues to recognize increases to the CalSTRS and CalPERS employer contribution rate in the budget year and two subsequent years and step and column increases were included for certificated and classified salaries. We strive to remain solvent and to continue to deliver an outstanding educational program to meet the needs of all our students. We continue to believe and practice that a conservative budget best serves the interest of all parties associated with the McSwain Union Elementary School District.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact:

Jody Beard, Director of Fiscal Services at McSwain Union Elementary School District, 926 Scott Road, Merced, California, 95341 or email jbeard@mcswain.k12.ca.us.

Dr. Steve Rosa, Superintendent, at McSwain Union Elementary School District, 926 Scott Road, Merced, California, 95341, or e-mail at srosa@mcswain.k12.ca.us.

MCSWAIN UNION ELEMENTARY SCHOOL DISTRICT

STATEMENT OF NET POSITION JUNE 30, 2017

	Governmental Activities
ASSETS	
Deposits and investments	\$ 4,001,087
Receivables	261,403
Stores inventories	2,002
Nondepreciable capital assets	468,434
Capital assets being depreciated	21,102,877
Accumulated depreciation	(5,925,692)
Total Assets	19,910,111
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources related to pensions	1,316,551
LIABILITIES	
Accounts payable	397,166
Long-term obligations:	
Current portion of long-term obligations other than pensions	193,048
Noncurrent portion of long-term obligations other than pensions	4,529,352
Total Long-Term Obligations	4,722,400
Aggregate net pension liability	6,842,386
Total Liabilities	11,961,952
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to pensions	329,331
NET POSITION	
Net investment in capital assets	11,318,260
Restricted for:	
Capital projects	108
Educational programs	361,788
Other activities	27,863
Unrestricted	(2,772,640)
Total Net Position	\$ 8,935,379

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

MCSWAIN UNION ELEMENTARY SCHOOL DISTRICT

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017**

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenues and Changes in Net Position Governmental Activities
		Charges for Services and Sales	Operating Grants and Contributions	
Governmental Activities:				
Instruction	\$ 5,352,238	\$ -	\$ 801,600	\$ (4,550,638)
Instruction-related activities:				
Supervision of instruction	164,008	-	19,273	(144,735)
Instructional library, media, and technology	212,785	-	24,102	(188,683)
School site administration	479,874	-	18,864	(461,010)
Pupil services:				
Home-to-school transportation	439,168	-	-	(439,168)
Food services	303,892	103,795	198,752	(1,345)
All other pupil services	81,786	-	7,784	(74,002)
Administration:				
Data processing	101,940	-	-	(101,940)
All other administration	644,588	5,478	56,956	(582,154)
Plant services	937,554	543	1,039	(935,972)
Ancillary services	24,115	-	734	(23,381)
Interest on long-term obligations	208,719	-	-	(208,719)
Other outgo	56,667	-	22,032	(34,635)
Total Governmental Activities	\$ 9,007,334	\$ 109,816	\$ 1,151,136	(7,746,382)
General revenues and subventions:				
Property taxes, levied for general purposes				1,591,649
Taxes levied for other specific purposes				224,976
Federal and State aid not restricted to specific purposes				5,598,387
Interest and investment earnings				38,511
Miscellaneous				118,451
Subtotal, General Revenues				7,571,974
Change in Net Position				(174,408)
Net Position - Beginning				9,109,787
Net Position - Ending				\$ 8,935,379

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

MCSWAIN UNION ELEMENTARY SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2017**

	General Fund	Building Fund	Special Reserve Capital Outlay Fund
ASSETS			
Deposits and investments	\$ 3,389,761	\$ 45,629	\$ 543,632
Receivables	233,335	-	-
Due from other funds	15,249	-	-
Stores inventories	-	-	-
Total Assets	<u>\$ 3,638,345</u>	<u>\$ 45,629</u>	<u>\$ 543,632</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 387,816	\$ -	\$ 8,210
Due to other funds	-	-	-
Total Liabilities	<u>387,816</u>	<u>-</u>	<u>8,210</u>
Fund Balances:			
Nonspendable	1,000	-	-
Restricted	361,788	45,629	-
Assigned	1,423,412	-	535,422
Unassigned	1,464,329	-	-
Total Fund Balances	<u>3,250,529</u>	<u>45,629</u>	<u>535,422</u>
Total Liabilities and Fund Balances	<u>\$ 3,638,345</u>	<u>\$ 45,629</u>	<u>\$ 543,632</u>

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

Non-Major Governmental Funds	Total Governmental Funds
\$ 22,065	\$ 4,001,087
28,068	261,403
-	15,249
2,002	2,002
\$ 52,135	\$ 4,279,741

\$ 1,140	\$ 397,166
15,249	15,249
16,389	412,415

2,502	3,502
33,244	440,661
-	1,958,834
-	1,464,329
35,746	3,867,326

\$ 52,135	\$ 4,279,741

MCSWAIN UNION ELEMENTARY SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2017**

Total Fund Balance - Governmental Funds	\$ 3,867,326
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.	
The cost of capital assets is	\$ 21,571,311
Accumulated depreciation is	<u>(5,925,692)</u>
Net Capital Assets	15,645,619
Expenditures relating to contributions made to pension plans were recognized on the modified accrual basis, but are not recognized on the accrual basis.	578,274
The net change in proportionate share of net pension liability as of the measurement date is not recognized as an expenditure under the modified accrual basis, but is recognized on the accrual basis over the expected average remaining service life of members receiving pension benefits.	(111,654)
The difference between projected and actual earnings on pension plan investments are not recognized on the modified accrual basis, but are recognized on the accrual basis as an adjustment to pension expense.	640,066
The differences between expected and actual experience in the measurement of the total pension liability are not recognized on the modified accrual basis, but are recognized on the accrual basis over the expected average remaining service life of members receiving pension benefits.	(81,310)
The changes of assumptions is not recognized as an expenditure under the modified accrual basis, but is recognized on the accrual basis over the expected average remaining service life of members receiving pension benefits.	(38,156)
Net pension liability is not due and payable in the current period, and is not reported as a liability in the funds.	(6,842,386)
Long-term obligations, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.	
Certificates of participation, including premiums	4,380,763
Compensated absences	8,889
Other postemployment benefits	<u>332,748</u>
Total Long-Term Obligations	<u>(4,722,400)</u>
Total Net Position - Governmental Activities	<u><u>\$ 8,935,379</u></u>

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

MCSWAIN UNION ELEMENTARY SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2017**

	General Fund	Building Fund
REVENUES		
Local Control Funding Formula	\$ 6,852,159	\$ -
Federal sources	235,915	-
Other State sources	893,021	-
Other local sources	197,467	200
Total Revenues	8,178,562	200
EXPENDITURES		
Current		
Instruction	5,024,060	-
Instruction-related activities:		
Supervision of instruction	160,234	-
Instructional library, media and technology	203,451	-
School site administration	453,274	-
Pupil services:		
Home-to-school transportation	375,965	-
Food services	1,200	-
All other pupil services	80,193	-
Administration:		
Data processing	99,914	-
All other administration	589,495	-
Plant services	694,885	2,381
Facility acquisition and construction	34,048	-
Ancillary services	23,830	-
Other outgo	56,667	-
Debt service		
Principal	-	1,160,000
Interest and other	-	211,767
Total Expenditures	7,797,216	1,374,148
Excess (Deficiency) of Revenues Over Expenditures	381,346	(1,373,948)
Other Financing Sources (Uses)		
Transfers in	-	374,297
Other sources	-	1,008,811
Transfers out	(170,000)	-
Net Financing Sources (Uses)	(170,000)	1,383,108
NET CHANGE IN FUND BALANCES	211,346	9,160
Fund Balance - Beginning	3,039,183	36,469
Fund Balance - Ending	\$ 3,250,529	\$ 45,629

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

Special Reserve Capital Outlay Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 6,852,159
-	182,477	418,392
-	13,282	906,303
2,803	429,835	630,305
<u>2,803</u>	<u>625,594</u>	<u>8,807,159</u>
-	-	5,024,060
-	-	160,234
-	-	203,451
-	-	453,274
-	-	375,965
-	288,943	290,143
-	-	80,193
-	-	99,914
-	15,249	604,744
28,920	8,346	734,532
34,900	-	68,948
-	-	23,830
-	-	56,667
-	-	1,160,000
-	-	211,767
<u>63,820</u>	<u>312,538</u>	<u>9,547,722</u>
<u>(61,017)</u>	<u>313,056</u>	<u>(740,563)</u>
170,000	-	544,297
-	-	1,008,811
-	(374,297)	(544,297)
<u>170,000</u>	<u>(374,297)</u>	<u>1,008,811</u>
108,983	(61,241)	268,248
426,439	96,987	3,599,078
<u>\$ 535,422</u>	<u>\$ 35,746</u>	<u>\$ 3,867,326</u>

MCSWAIN UNION ELEMENTARY 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

Total Net Change in Fund Balances - Governmental Funds	\$ 268,248
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:	
<p>Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures; however, for governmental activities, those costs are shown in the Statement of Net Position and allocated over their estimated useful lives as annual depreciation expenses in the Statement of Activities.</p> <p>This is the amount by which depreciation exceeds capital outlay in the period.</p>	
Depreciation expense	\$ (527,586)
Capital outlay	<u>68,948</u>
Net Expense Adjustment	(458,638)
<p>Expenditures relating to contributions made to pension plans were recognized on the modified accrual basis, but are not recognized on the accrual basis.</p>	
	(113,593)
<p>In the Statement of Activities, compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for are measured by the amount of financial resources used (essentially, the amounts actually paid). Vacation earned was less than the amounts paid by \$2,679.</p>	
	2,679
<p>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:</p>	
	(27,341)
<p>Proceeds received from Certificates of Participation is a revenue in the governmental funds, but it increases long-term obligations in the Statement of Net Position and does not affect the Statement of Activities.</p>	
	(957,000)
<p>Premiums relating to issuance of debt were recognized on the modified accrual basis, but are capitalized and amortized over the life of the debt on the accrual basis. This is the amount of premiums on debt issued during the year.</p>	
	(51,811)
<p>Governmental funds report the effect of premiums, discounts, and the deferred amount on a refunding when the debt is first issued, whereas the amounts are deferred and amortized in the Statement of Activities.</p>	
Amortization of premiums	3,048

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

MCSWAIN UNION ELEMENTARY SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES, Continued FOR THE YEAR ENDED JUNE 30, 2017

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

Certificates of participation	<u>\$ 1,160,000</u>
Change in Net Position of Governmental Activities	<u><u>\$ (174,408)</u></u>

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

MCSWAIN UNION ELEMENTARY SCHOOL DISTRICT

**FIDUCIARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2017**

	<u>Agency Funds</u>
ASSETS	
Deposits and investments	\$ 67,816
LIABILITIES	
Due to student groups	\$ 67,816

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

MCSWAIN UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The McSwain Union Elementary School District (the District) was organized in 1950 under the laws of the State of California. The District operates under a locally elected five-member Board form of government and provides educational services to grades K - 8 as mandated by the State and/or Federal agencies. The District operates one K-8 elementary school.

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

Component Units

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

The McSwain Union Elementary School District Financing Corporation's financial activity is presented in the financial statements as the Capital Project Blended Component Unit Fund. Certificates of participation issued by the Corporation are included as long-term liabilities in the government-wide financial statements. Individually-prepared financial statements are not prepared for the McSwain Union Elementary School District Financing Corporation.

Basis of Presentation - Fund Accounting

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

MCSWAIN UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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

Major Governmental Funds

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

One fund currently defined as a special revenue fund in the California State Accounting Manual (CSAM) does not meet the GASB Statement No. 54 special revenue fund definition. Specifically, Fund 15, Pupil Transportation Fund, is not substantially composed of restricted or committed revenue sources. While this fund is authorized by statute and will remain open for internal reporting purposes, this fund functions effectively as extensions of the General Fund, and accordingly has been consolidated with the General Fund for presentation in these audited financial statements.

As a result, the General Fund reflects an increase in assets, fund balance, and revenues, of \$176,419, \$176,419, and \$1,907, respectively.

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

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

Non-Major Governmental Funds

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

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

MCSWAIN UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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

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

Capital Projects Blended Component Units Fund The Capital Projects Blended Component Units Fund is used to account for capital projects financed by the McSwain Union Elementary School District Financing Corporation that is considered a blended component unit of the District under generally accepted accounting principles (GAAP). The fund is also used to record the receipt and activity of Mello-Roos tax assessments paid to the District.

Fiduciary Funds Fiduciary funds are used to account for assets held in trustee or agent capacity for others that cannot be used to support the District's own programs. The fiduciary fund category is agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Such funds have no equity accounts since all assets are due to individuals or entities at some future time. The District's agency fund accounts for student body activities (ASB).

Basis of Accounting - Measurement Focus

Government-Wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

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

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

MCSWAIN UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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

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

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

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

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

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable, and typically paid within 60 days. Principal and interest on long-term obligations, which has not matured, are recognized when paid in the governmental funds as expenditures. Allocations of costs, such as depreciation, are not recognized in the governmental funds but are recognized in the entity-wide statements.

MCSWAIN UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Investments

Investments held at June 30, 2017, 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 investment pools are determined by the program sponsor.

Stores Inventories

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

Capital Assets and Depreciation

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

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

Depreciation is computed using the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 20 to 50 years; improvements/infrastructure, 5 to 50 years; equipment, 2 to 15 years.

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental activities column of the Statement of Net Position.

Compensated Absences

Compensated absences are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide statement of net position.

MCSWAIN UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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

Accounts Payable and Long-Term Obligations

Accounts payable and long-term obligations are reported in the government-wide financial statements. In general, governmental fund accounts payable that are paid in a timely manner and in full from current financial resources are reported as obligations of the funds.

Deferred Outflows/Inflows of Resources

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

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

Pensions

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

Fund Balances - Governmental Funds

As of June 30, 2017, fund balances of the governmental funds are classified as follows:

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

MCSWAIN UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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

Committed - amounts that can be used only for specific purposes determined by a formal action of the governing board. The governing board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through resolutions or other action as approved by the governing board. The District currently does not have any committed funds.

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

Unassigned - all other spendable amounts.

Spending Order Policy

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

Minimum Fund Balance Policy

In fiscal year 2010-2011, the governing board adopted a minimum fund balance policy for the General Fund in order to protect the District against revenue shortfalls or unpredicted one-time expenditures. The policy requires a Reserve for Economic Uncertainties consisting of unassigned amounts equal to no less than four percent of General Fund expenditures and other financing uses.

Net Position

Net position represents the difference between assets and liabilities. Net position net of investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. The government-wide financial statements report \$389,759 of restricted net position.

MCSWAIN UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Interfund Activity

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

Estimates

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

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.

Property Tax

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

Change in Accounting Principles

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

MCSWAIN UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement No. 43, and Statement No. 50, *Pension Disclosures*.

The District has implemented the provisions of this Statement as of June 30, 2017.

In December 2015, the GASB issued Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions.

Prior to the issuance of this Statement, the requirements of Statement No. 68 applied to the financial statements of all state and local governmental employers whose employees are provided with pensions through pension plans that are administered through trusts that meet the criteria in paragraph 4 of that Statement.

This Statement amends the scope and applicability of Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above.

The District has implemented the provisions of this Statement as of June 30, 2017.

In March 2016, the GASB issued Statement No. 82, *Pension Issues - An Amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

The District has implemented the provisions of this Statement as of June 30, 2017, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

MCSWAIN UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

New Accounting Pronouncements

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

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

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2017. Early implementation is encouraged.

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

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

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

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

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation;
- Reporting amounts previously reported as goodwill and "negative" goodwill;
- Classifying real estate held by insurance entities;
- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost;
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus;

MCSWAIN UNION ELEMENTARY SCHOOL DISTRICT

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JUNE 30, 2017

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

The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Early implementation is encouraged.

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

The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Early implementation is encouraged.

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

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

MCSWAIN UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2017, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 4,001,087
Fiduciary funds	67,816
Total Deposits and Investments	<u>\$ 4,068,903</u>

Deposits and investments as of June 30, 2017, consist of the following:

Cash on hand and in banks	\$ 67,816
Cash in revolving	1,500
Investments	3,999,587
Total Deposits and Investments	<u>\$ 4,068,903</u>

Policies and Practices

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

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

MCSWAIN UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

General Authorizations

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

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

Interest Rate Risk

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

Segmented Time Distribution

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

Investment Type	Fair Value	12 Months or Less	13 - 24 Months	25 - 60 Months	More Than 60 Months
County Pool	\$ 3,995,284	\$ -	\$ 3,995,284	\$ -	\$ -

MCSWAIN UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 3 - FAIR VALUE MEASUREMENTS

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

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

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

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

Uncategorized - Investments in the Merced 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.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2017, consist of intergovernmental grants, entitlements, state apportionments, and local sources. All receivables are considered collectible in full.

	General Fund	Non-Major Governmental Funds	Total
Federal Government			
Categorical aid	\$ 39,582	\$ 26,293	\$ 65,875
State Government			
State grants and entitlements	162,832	1,775	164,607
Local Sources	30,921	-	30,921
Total	<u>\$ 233,335</u>	<u>\$ 28,068</u>	<u>\$ 261,403</u>

MCSWAIN UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 5 - CAPITAL ASSETS

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

	<u>Balance</u> <u>July 1, 2016</u>	<u>Additions</u>	<u>Balance</u> <u>June 30, 2017</u>
Governmental Activities			
Capital Assets Not Being Depreciated:			
Land	\$ 389,239	\$ -	\$ 389,239
Construction in Progress	35,628	43,567	79,195
Total Capital Assets Not Being Depreciated	<u>424,867</u>	<u>43,567</u>	<u>468,434</u>
Capital Assets Being Depreciated:			
Land Improvements	250,705	-	250,705
Buildings and Improvements	19,249,487	16,182	19,265,669
Furniture and Equipment	1,577,304	9,199	1,586,503
Total Capital Assets Being Depreciated	<u>21,077,496</u>	<u>25,381</u>	<u>21,102,877</u>
Total Capital Assets	<u>21,502,363</u>	<u>68,948</u>	<u>21,571,311</u>
Less Accumulated Depreciation:			
Land Improvements	179,563	10,151	189,714
Buildings and Improvements	4,050,181	440,863	4,491,044
Furniture and Equipment	1,168,362	76,572	1,244,934
Total Accumulated Depreciation	<u>5,398,106</u>	<u>527,586</u>	<u>5,925,692</u>
Governmental Activities Capital Assets, Net	<u>\$ 16,104,257</u>	<u>\$ (458,638)</u>	<u>\$ 15,645,619</u>

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

Governmental Activities	
Instruction	\$ 211,034
Instructional library, media, and technology	5,276
School site administration	15,828
Home-to-school transportation	58,034
Food services	10,552
All other administration	31,655
Plant services	195,207
Total Depreciation Expenses Governmental Activities	<u>\$ 527,586</u>

MCSWAIN UNION ELEMENTARY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 6 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund receivable and payable balances at June 30, 2017, between major and non-major governmental funds are as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Major Governmental Fund		
General	\$ 15,249	\$ -
Non-Major Governmental Fund		
Cafeteria	-	15,249
Total All Governmental Funds	<u>\$ 15,249</u>	<u>\$ 15,249</u>

The Non-Major Governmental Cafeteria Fund owes the General Fund for indirect costs. \$ 15,249

Operating Transfers

Interfund transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Interfund transfers for the year ended June 30, 2017, consist of the following:

The Non-Major Governmental Capital Projects for Blended Component Units Fund transferred to the Building Fund for the COP payment.	\$ 267,000
The General Fund transferred to the Special Reserve Capital Outlay Fund for facility maintenance.	170,000
The Non-Major Governmental Capital Facilities Fund transferred to the Building Fund for the COP payment.	107,297
Total	<u>\$ 544,297</u>

MCSWAIN UNION ELEMENTARY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 7 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2017, consist of the following:

	General Fund	Special Reserve Capital Outlay Fund	Non-Major Governmental Funds	Total
Vendor payables	\$ 313,176	\$ 8,210	\$ 1,140	\$ 322,526
Salaries and benefits	32,010	-	-	32,010
State principal apportionment	42,630	-	-	42,630
Total	<u>\$ 387,816</u>	<u>\$ 8,210</u>	<u>\$ 1,140</u>	<u>\$ 397,166</u>

NOTE 8 - LONG-TERM OBLIGATIONS

Summary

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

	Balance July 1, 2016	Additions	Deductions	Balance June 30, 2017	Due in One Year
Certificates of participation	\$ 4,535,000	\$ 957,000	\$ 1,160,000	\$ 4,332,000	\$ 190,000
Premium	-	51,811	3,048	48,763	3,048
Compensated absences - net	11,568	-	2,679	8,889	-
Other postemployment benefits	305,407	149,216	121,875	332,748	-
Total	<u>\$ 4,851,975</u>	<u>\$ 1,158,027</u>	<u>\$ 1,287,602</u>	<u>\$ 4,722,400</u>	<u>\$ 193,048</u>

The Building Fund makes payments for the certificates of participation. The compensated absences and the other postemployment benefits obligations will be paid by the fund for which the employee worked.

MCSWAIN UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Certificates of Participation

2015 Refunding Issuance

In December 2015, The McSwain Union Elementary School District issued Certificates of Participation (COP) in the amount of \$3,520,000 with a fixed interest rate of 3.5 percent. The COPs were issued to refund, in full, the 2005 COPs and refund a portion of the 2007 COPs. As of June 30, 2017, the principal balance outstanding was \$3,395,000.

The certificates mature through 2035 as follows:

Year Ending June 30,	Principal	Interest	Total
2018	\$ 105,000	\$ 116,988	\$ 221,988
2019	105,000	113,313	218,313
2020	115,000	109,463	224,463
2021	120,000	105,350	225,350
2022	180,000	100,100	280,100
2023-2027	990,000	400,927	1,390,927
2028-2032	1,180,000	210,702	1,390,702
2033-2035	600,000	28,344	628,344
Total	<u>\$ 3,395,000</u>	<u>\$ 1,185,187</u>	<u>\$ 4,580,187</u>

2016 Refunding Issuance

In September 2016, The McSwain Union Elementary School District issued Certificates of Participation (COP) in the amount of \$957,000 with fixed interest rates of 3.375 percent. The COPs were issued to refund, in full, the remaining balance of the 2007 COPs. As of June 30, 2017, the principal balance outstanding was \$937,000.

The certificates mature through 2033 as follows:

Year Ending June 30,	Principal	Interest	Total
2018	\$ 85,000	\$ 31,624	\$ 116,624
2019	95,000	28,755	123,755
2020	94,000	25,549	119,549
2021	93,000	22,376	115,376
2022	42,000	19,238	61,238
2023-2027	218,000	74,487	292,487
2028-2032	255,000	35,608	290,608
2033	55,000	1,854	56,854
Total	<u>\$ 937,000</u>	<u>\$ 239,491</u>	<u>\$ 1,176,491</u>

MCSWAIN UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

2016 Refunding Issuance -Schedule of Savings

Prior Debt Service Requirements	\$ 1,297,780
Cash Flow for refunding issuance	1,197,298
Savings	<u>\$ 100,482</u>
Present value at September 22, 2016 (2.54 percent factor)	<u>\$ 82,002</u>

Compensated Absences

The long-term portion of compensated absences for the District at June 30, 2017, amounted to \$8,889.

Other Postemployment Benefits (OPEB) Obligation

The District's annual required contribution for the year ended June 30, 2017, was \$137,000, and contributions made by the District during the year were \$104,213 (including the implicit rate subsidy factor of 9.022 percent). Interest on the net OPEB obligation and adjustments to the annual required contribution were \$12,216 and \$(17,662), respectively, which resulted in an increase to the net OPEB obligation of \$27,341. As of June 30, 2017, the net OPEB obligation was \$332,748. See Note 10 for additional information regarding the OPEB obligation and the postemployment benefits plan.

MCSWAIN UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 9 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Building Fund	Special Reserve Capital Outlay Fund	Non-Major Governmental Funds	Total
Nonspendable					
Revolving cash	\$ 1,000	\$ -	\$ -	\$ 500	\$ 1,500
Stores inventories	-	-	-	2,002	2,002
Total Nonspendable	1,000	-	-	2,502	3,502
Restricted					
Legally restricted programs	361,788	-	-	-	361,788
Capital projects	-	45,629	-	7,883	53,512
Food service	-	-	-	25,361	25,361
Total Restricted	361,788	45,629	-	33,244	440,661
Assigned					
Modernization	761,993	-	-	-	761,993
New bus purchase	196,419	-	-	-	196,419
Science book adoption	150,000	-	-	-	150,000
Technology	100,000	-	-	-	100,000
Instructional program support	60,000	-	-	-	60,000
Deferred maintenance	40,000	-	-	-	40,000
Chromebooks	35,000	-	-	-	35,000
Student desks	30,000	-	-	-	30,000
Library materials	25,000	-	-	-	25,000
Science materials	25,000	-	-	-	25,000
Capital projects	-	-	535,422	-	535,422
Total Assigned	1,423,412	-	535,422	-	1,958,834
Unassigned					
Reserve for economic uncertainties	798,917	-	-	-	798,917
Unassigned	665,412	-	-	-	665,412
Total Unassigned	1,464,329	-	-	-	1,464,329
Total	\$ 3,250,529	\$ 45,629	\$ 535,422	\$ 35,746	\$ 3,867,326

MCSWAIN UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 10 - POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION

Plan Description

The Postemployment Benefits Plan (the "Plan") is a single-employer defined benefit healthcare plan administered by the McSwain Union Elementary School District. The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Membership of the Plan consists of 11 retirees and beneficiaries currently receiving benefits and 39 active plan members.

Contribution Information

The contribution requirements of plan members and the District are established and may be amended by the District and the McSwain Teachers Association (MTA), the local California Service Employees Association (CSEA), and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually through the agreements between the District, MTA, CSEA and the unrepresented groups. For fiscal year 2016-2017, the District contributed \$104,213 to the plan, all of which was used for current premiums (69.83 percent of total premiums). Plan members receiving benefits contributed \$45,016, or 30.17 percent of the total premiums.

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	\$ 137,000
Interest on net OPEB obligation	12,216
Adjustment to annual required contribution	<u>(17,662)</u>
Annual OPEB cost (expense)	131,554
Contributions made	<u>(104,213)</u>
Increase in net OPEB obligation	27,341
Net OPEB obligation, beginning of year	305,407
Net OPEB obligation, end of year	<u><u>\$ 332,748</u></u>

MCSWAIN UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Trend Information

Trend information for annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation is as follows:

Year Ended June 30,	Annual OPEB Cost	Actual Contribution	Percentage Contributed	Net OPEB Obligation
2017	\$ 131,554	\$ 104,213	79.22%	\$ 332,748
2016	132,286	91,253	68.98%	305,407
2015	158,637	95,028	59.90%	264,374

Funded Status and Funding Progress

A schedule of funding progress as of the most recent actuarial valuation is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Projected Unit Credit (b)	Unfunded AL (UAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
July 1, 2015	\$ -	\$ 1,273,736	\$ 1,273,736	0%	\$ 4,233,557	30.09%

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 the financial statements, presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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.

MCSWAIN UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

In the July 1, 2015, actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a four percent investment rate of return (net of administrative expenses), based on the plan being funded in an irrevocable employee benefit trust invested in a combined equity and fixed income portfolio. The cost trend rate used for Healthcare is eight to five percent. The UAAL is being amortized at a level dollar method. The remaining amortization period at July 1, 2017, was 23 years.

NOTE 11 - RISK MANAGEMENT

Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2017, the District contracted with Self-Insured Schools of California (SISC II) for property and liability insurance coverage. Settled claims have not exceeded coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

Workers' Compensation

For fiscal year 2017, the District participated in the Merced County Schools Insurance Group I (MCSIG I), an insurance purchasing pool. The intent of MCSIG I is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in MCSIG I. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all districts in MCSIG I. Each participant pays its workers' compensation premium based on its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage. A participant will then either receive money from or be required to contribute to the "equity-pooling fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of MCSIG I. Participation in MCSIG I is limited to districts that can meet MCSIG I selection criteria.

Employee Medical Benefits

The District has contracted with the Self-Insured Schools of California (SISC III) to provide employee health benefits. SISC III is a shared risk pool comprised of school districts throughout California. Rates are set through an annual calculation process. The District pays a monthly contribution, which is placed in a common fund from which claim payments are made for all participating districts. Claims are paid for all participants regardless of claims flow. The Board of Directors has a right to return monies to a district subsequent to the settlement of all expenses and claims if a district withdraws from the pool.

MCSWAIN UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 12 - EMPLOYEE RETIREMENT SYSTEMS

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

For the fiscal year ended June 30, 2017, the District reported net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense for each of the above plans as follows:

<u>Pension Plan</u>	<u>Collective Net Pension Liability</u>	<u>Collective Deferred Outflows of Resources</u>	<u>Collective Deferred Inflows of Resources</u>	<u>Collective Pension Expense</u>
CalSTRS	\$ 5,572,372	\$ 924,467	\$ 264,184	\$ 525,581
CalPERS	1,270,014	392,084	65,147	166,286
Total	<u>\$ 6,842,386</u>	<u>\$ 1,316,551</u>	<u>\$ 329,331</u>	<u>\$ 691,867</u>

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

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

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2015, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publically available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/member-publications>.

Benefits Provided

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

MCSWAIN UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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

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

The STRP provisions and benefits in effect at June 30, 2017, are summarized as follows:

	STRP Defined Benefit Program	
	On or before	On or after
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	10.25%	9.205%
Required employer contribution rate	12.58%	12.58%
Required state contribution rate	8.828%	8.828%

Contributions

Required member, District and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2017, are presented above and the District's total contributions were \$460,865.

MCSWAIN UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

Total net pension liability, including State share:

District's proportionate share of net pension liability	\$ 5,572,372
State's proportionate share of the net pension liability associated with the District	<u>3,172,252</u>
Total	<u><u>\$ 8,744,624</u></u>

The net pension liability was measured as of 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 and the State, actuarially determined. The District's proportionate share for the measurement period June 30, 2016 and June 30, 2015, respectively was 0.0069 percent and 0.0071 percent, resulting in a net decrease in the proportionate share of 0.0002 percent.

For the year ended June 30, 2017, the District recognized pension expense of \$525,581. In addition, the District recognized pension expense and revenue of \$306,632 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>
Pension contributions subsequent to measurement date	\$ 460,865	\$ -
Net change in proportionate share of net pension liability	20,601	128,252
Difference between projected and actual earnings on pension plan investments	443,001	-
Differences between expected and actual experience in the measurement of the total pension liability	-	135,932
Total	<u><u>\$ 924,467</u></u>	<u><u>\$ 264,184</u></u>

MCSWAIN UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year. The deferred outflows of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows of Resources
2018	\$ 9,665
2019	9,665
2020	257,517
2021	166,154
Total	<u>\$ 443,001</u>

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2018	\$ (42,063)
2019	(42,063)
2020	(42,063)
2021	(42,063)
2022	(42,062)
Thereafter	(33,269)
Total	<u>\$ (243,583)</u>

MCSWAIN UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Actuarial Methods and Assumptions

Total pension liability for STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2015, and rolling forward the total pension liability to June 30, 2016. The financial reporting actuarial valuation as of June 30, 2015, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2015
Measurement date	June 30, 2016
Experience study	July 1, 2006 through June 30, 2010
Actuarial cost method	Entry age normal
Discount rate	7.60%
Investment rate of return	7.60%
Consumer price inflation	3.00%
Wage growth	3.75%

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

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

MCSWAIN UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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 the contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.60 percent) and assuming that contributions, benefit payments and administrative expense occurred midyear. Based on these assumptions, the STRP's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

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

<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% decrease (6.60%)	\$ 8,019,899
Current discount rate (7.60%)	\$ 5,572,372
1% increase (8.60%)	\$ 3,539,597

California Public Employees Retirement System (CalPERS)

Plan Description

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

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2015 annual actuarial valuation report, Schools Pool Actuarial Valuation. This report and CalPERS audited financial information are publically available reports that can be found on the CalPERS website under Forms and Publications at: <https://www.calpers.ca.gov/page/forms-publications>.

MCSWAIN UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Benefits Provided

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

The CalPERS provisions and benefits in effect at June 30, 2017, are summarized as follows:

	<u>School Employer Pool (CalPERS)</u>	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.00%	6.00%
Required employer contribution rate	13.888%	13.888%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2017, are presented above and the total District contributions were \$117,409.

MCSWAIN UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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

As of June 30, 2017, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$1,270,014. The net pension liability was measured as of 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. The District's proportionate share for the measurement period June 30, 2016 and June 30, 2015, respectively was 0.0064 percent and 0.0067 percent, resulting in a net decrease in the proportionate share of 0.0003 percent.

For the year ended June 30, 2017, the District recognized pension expense of \$166,286. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 117,409	\$ -
Net change in proportionate share of net pension liability	22,988	26,991
Difference between projected and actual earnings on pension plan investments	197,065	-
Differences between expected and actual experience in the measurement of the total pension liability	54,622	-
Changes of assumptions	-	38,156
Total	<u>\$ 392,084</u>	<u>\$ 65,147</u>

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year. The deferred outflows of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows of Resources
2018	\$ 27,641
2019	27,641
2020	90,350
2021	51,433
Total	<u>\$ 197,065</u>

MCSWAIN UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2018	\$ 7,986
2019	6,917
2020	(2,440)
Total	<u>\$ 12,463</u>

Actuarial Methods and Assumptions

Total pension liability for the SEP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2015, and rolling forward the total pension liability to June 30, 2016. The financial reporting actuarial valuation as of June 30, 2015, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2015
Measurement date	June 30, 2016
Experience study	July 1, 1997 through June 30, 2011
Actuarial cost method	Entry age normal
Discount rate	7.65%
Investment rate of return	7.65%
Consumer price inflation	2.75%
Wage growth	Varies by entry age and service

Mortality assumptions are based on mortality rates resulting from the most recent CalPERS experience study adopted by the CalPERS Board. For purposes of the post-retirement mortality rates, those revised rates include five years of projected ongoing mortality improvement using Scale AA published by the Society of Actuaries.

MCSWAIN UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first ten years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global equity	51%	5.71%
Global debt securities	20%	2.43%
Inflation assets	6%	3.36%
Private equity	10%	6.95%
Real estate	10%	5.13%
Infrastructure and Forestland	2%	5.09%
Liquidity	1%	-1.05%

Discount Rate

The discount rate used to measure the total pension liability was 7.65 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Based on these assumptions, the School Employer Pool fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

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

<u>Discount rate</u>	<u>Net Pension Liability</u>
1% decrease (6.65%)	\$ 1,894,868
Current discount rate (7.65%)	\$ 1,270,014
1% increase (8.65%)	\$ 749,700

MCSWAIN UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Social Security

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) must be covered by Social Security or an alternative plan. The District has elected to use Social Security. Contributions made by the District and an employee vest immediately. The District contributes 6.2 percent of an employee's gross earnings. An employee is required to contribute 6.2 percent of his or her gross earnings to Social Security.

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of \$280,865 (8.602 percent of annual payroll). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

Grants

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

Litigation

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

Construction Commitments

As of June 30, 2017, the District had the following commitments with respect to the unfinished capital projects:

<u>Capital Project</u>	<u>Remaining Construction Commitment</u>	<u>Expected Date of Completion</u>
Proposition 39 projects	<u>\$ 174,000</u>	<u>September, 2017</u>

MCSWAIN UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 14 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS, JOINT POWERS AUTHORITIES AND OTHER RELATED PARTY TRANSACTIONS

The District is a member of the Merced County Schools Insurance Group I (MCSIG I), Self-Insured Schools of California (SISC II), and the Self-Insured Schools of California (SISC III) joint powers authorities (JPAs). The District pays an annual premium to the applicable entity for its health, workers' compensation, and property liability coverage. The relationship between the District and the JPAs are such that they are not component units of the District for financial reporting purposes.

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

The District has appointed one member to the governing board of MCSIG I.

During the year ended June 30, 2017, the District made payment of \$123,799 to MCSIG I for workers' compensation insurance.

The District has appointed no members to the governing board of SISC II.

During the year ended June 30, 2017, the District made payment of \$48,322 to SISC II for general liability insurance.

The District has appointed no members to the governing board of SISC III.

During the year ended June 30, 2017, the District made payment of \$700,219 to SISC III for health, dental, and vision benefits.

REQUIRED SUPPLEMENTARY INFORMATION

MCSWAIN UNION ELEMENTARY SCHOOL DISTRICT

**GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2017**

	Budgeted Amounts		Actual	Variances -
	Original	Final		Favorable (Unfavorable)
				Final to Actual
REVENUES				
Local Control Funding Formula	\$ 6,667,514	\$ 6,869,795	\$ 6,852,159	\$ (17,636)
Federal sources	229,421	240,106	235,915	(4,191)
Other state sources	879,790	874,368	893,021	18,653
Other local sources	132,500	171,157	197,467	26,310
Total Revenues ¹	7,909,225	8,155,426	8,178,562	23,136
EXPENDITURES				
Current				
Certificated salaries	3,734,518	3,631,169	3,702,778	(71,609)
Classified salaries	926,262	978,590	946,764	31,826
Employee benefits	1,870,589	2,055,013	1,864,081	190,932
Books and supplies	640,314	677,602	503,146	174,456
Services and operating expenditures	696,943	792,685	710,483	82,202
Other outgo	32,692	31,748	41,418	(9,670)
Capital outlay	55,000	55,000	28,546	26,454
Total Expenditures ¹	7,956,318	8,221,807	7,797,216	424,591
Excess of Revenues Over Expenditures	(47,093)	(66,381)	381,346	447,727
Other Financing Sources (Uses)				
Transfers out	(19,278)	(79,277)	(170,000)	(90,723)
NET CHANGE IN FUND BALANCES	(66,371)	(145,658)	211,346	357,004
Fund Balance - Beginning	3,039,183	3,039,183	3,039,183	-
Fund Balance - Ending	\$ 2,972,812	\$ 2,893,525	\$ 3,250,529	\$ 357,004

¹ Due to the consolidation of Fund 15, Pupil Transportation Fund for reporting purposes into the General Fund, additional revenues and expenditures pertaining to these other funds are included in the actual revenues and expenditures, however, are not included in the original and final General Fund budgets.

See accompanying note to required supplementary information.

MCSWAIN UNION ELEMENTARY SCHOOL DISTRICT

**SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB)
FUNDING PROGRESS
FOR THE YEAR ENDED JUNE 30, 2017**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Projected Unit Credit (b)	Unfunded AL (UAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
July 1, 2015	\$ -	\$ 1,273,736	\$ 1,273,736	0%	\$ 4,233,557	30.09%
July 1, 2012	\$ -	\$ 2,105,577	\$ 2,105,577	0%	\$ 4,029,654	52.25%
May 1, 2010	\$ -	\$ 1,107,218	\$ 1,107,218	0%	\$ 3,609,705	30.67%

See accompanying note to required supplementary information.

MCSWAIN UNION ELEMENTARY SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY FOR THE YEAR ENDED JUNE 30, 2017

	<u>2017</u>	<u>2016</u>
CalSTRS		
District's proportion of the net pension liability (asset)	<u>0.0069%</u>	<u>0.0071%</u>
District's proportionate share of the net pension liability (asset)	\$ 5,572,372	\$ 4,774,593
State's proportionate share of the net pension liability (asset) associated with the District	<u>3,172,252</u>	<u>2,525,233</u>
Total	<u>\$ 8,744,624</u>	<u>\$ 7,299,826</u>
District's covered - employee payroll	<u>\$ 3,462,171</u>	<u>\$ 3,291,475</u>
District's proportionate share of the net pension liability (asset) as a percentage of its covered - employee payroll	<u>160.95%</u>	<u>145.06%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>70%</u>	<u>74%</u>
CalPERS		
District's proportion of the net pension liability (asset)	<u>0.0064%</u>	<u>0.0067%</u>
District's proportionate share of the net pension liability (asset)	<u>\$ 1,270,014</u>	<u>\$ 982,804</u>
District's covered - employee payroll	<u>\$ 771,385</u>	<u>\$ 738,179</u>
District's proportionate share of the net pension liability (asset) as a percentage of its covered - employee payroll	<u>164.64%</u>	<u>133.14%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>74%</u>	<u>79%</u>

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

See accompanying note to required supplementary information.

2015

0.0071%

\$ 4,121,187

2,488,550

\$ 6,609,737

\$ 3,164,194

130.24%

77%

0.0064%

\$ 721,811

\$ 676,455

106.70%

83%

MCSWAIN UNION ELEMENTARY SCHOOL DISTRICT

**SCHEDULE OF DISTRICT CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>2017</u>	<u>2016</u>
CalSTRS		
Contractually required contribution	\$ 460,865	\$ 371,491
Contributions in relation to the contractually required contribution	460,865	371,491
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered - employee payroll	<u>\$ 3,663,474</u>	<u>\$ 3,462,171</u>
Contributions as a percentage of covered - employee payroll	<u>12.58%</u>	<u>10.73%</u>
CalPERS		
Contractually required contribution	\$ 117,409	\$ 91,386
Contributions in relation to the contractually required contribution	117,409	91,386
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered - employee payroll	<u>\$ 845,399</u>	<u>\$ 771,385</u>
Contributions as a percentage of covered - employee payroll	<u>13.888%</u>	<u>11.847%</u>

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

See accompanying note to required supplementary information.

2015

\$ 292,283
(292,283)
\$ -

\$ 3,291,475

8.88%

\$ 86,891
(86,891)
\$ -

\$ 738,179

11.771%

MCSWAIN UNION ELEMENTARY SCHOOL DISTRICT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2017

NOTE 1 - PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

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

Schedule of Other Postemployment Benefits (OPEB) Funding Progress

This schedule is intended to show trends about the funding progress of the District's actuarially determined liability for postemployment benefits other than pensions.

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

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

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

Changes in Assumptions – There were no changes in economic assumptions for either the CalSTRS or CalPERS plans from the previous valuations.

Schedule of District Contributions

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

SUPPLEMENTARY INFORMATION

MCSWAIN UNION ELEMENTARY SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2017

ORGANIZATION

The McSwain Union Elementary School District was established in 1950 and consists of an area comprising approximately 116 square miles. The District operates one K-8 elementary school. There were no boundary changes during the year.

GOVERNING BOARD

MEMBER	OFFICE	TERM EXPIRES
Luis Lara	President	2020
Bill Halpin	Clerk	2018
Joe Hoffar	Member	2018
Todd Machado	Member	2018
Joe Scoto	Member	2020

ADMINISTRATION

Dr. Helio Brasil	Superintendent
Laurie Havel	Principal
Hector Perez	Assistant Principal

See accompanying note to supplementary information.

MCSWAIN UNION ELEMENTARY SCHOOL DISTRICT

SCHEDULE OF AVERAGE DAILY ATTENDANCE FOR THE YEAR ENDED JUNE 30, 2017

	<u>Second Period Report</u>	<u>Annual Report</u>
Regular ADA		
Transitional kindergarten through third	371.63	370.40
Fourth through sixth	269.31	268.50
Seventh and eighth	188.86	188.46
Total Regular ADA	<u>829.80</u>	<u>827.36</u>

See accompanying note to supplementary information.

MCSWAIN UNION ELEMENTARY SCHOOL DISTRICT

**SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2017**

Grade Level	1986-1987 Minutes Requirement	2016-2017 Actual Minutes	Number of Days		Status
			Traditional Calendar	Multitrack Calendar	
Kindergarten	36,000	54,390	180	N/A	Complied
Grades 1 - 3	50,400				
Grade 1		51,690	180	N/A	Complied
Grade 2		51,690	180	N/A	Complied
Grade 3		51,690	180	N/A	Complied
Grades 4 - 6	54,000				
Grade 4		60,080	180	N/A	Complied
Grade 5		60,080	180	N/A	Complied
Grade 6		61,232	180	N/A	Complied
Grades 7 - 8	54,000				
Grade 7		61,232	180	N/A	Complied
Grade 8		61,232	180	N/A	Complied

See accompanying note to supplementary information.

MCSWAIN UNION ELEMENTARY SCHOOL DISTRICT

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2017.

See accompanying note to supplementary information.

MCSWAIN UNION ELEMENTARY SCHOOL DISTRICT

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017**

	(Budget) 2018 ^{1,4}	2017 ⁴	2016 ⁴	2015 ⁴
GENERAL FUND				
Revenues	\$ 8,067,580	\$ 8,176,655	\$ 8,328,110	\$ 6,865,006
Other sources and transfers in	-	-	17,722	-
Total revenues and other sources ³	8,067,580	8,176,655	8,345,832	6,865,006
Expenditures	8,424,783	7,797,216	7,065,024	6,406,255
Other uses and transfers out	70,077	190,000	375,000	281,860
Total Expenditures				
Total expenditures and other uses ³	8,494,860	7,987,216	7,440,024	6,688,115
INCREASE (DECREASE) IN FUND BALANCE	\$ (427,280)	\$ 189,439	\$ 905,808	\$ 176,891
ENDING FUND BALANCE	\$ 2,646,830	\$ 3,074,110	\$ 2,884,671	\$ 1,978,863
AVAILABLE RESERVES ²	\$ 2,481,005	\$ 1,464,329	\$ 2,196,590	\$ 1,431,587
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO	29.21%	18.33%	29.52%	21.40%
LONG-TERM OBLIGATIONS	Not Available	\$ 4,722,400	\$ 4,851,975	\$ 4,989,707
K-12 AVERAGE DAILY ATTENDANCE AT P-2	832	830	799	831

The General Fund balance has increased by \$1,095,247 over the past two years. The fiscal year 2017-2018 budget projects a decrease of \$427,280 (13.9 percent). For a district this size, the State recommends available reserves of at least four percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in all of the past three years but anticipates incurring an operating deficit during the 2017-2018 fiscal year. Total long-term obligations have decreased by \$267,307 over the past two years.

Average daily attendance has decreased by one over the past two years. Growth of two ADA is anticipated during fiscal year 2017-2018.

¹ Budget 2018 is included for analytical purposes only and has not been subjected to audit.

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

³ On behalf payments have been excluded from revenues and expenditures in this schedule for the 2015 fiscal year.

⁴ General Fund amounts do not include activity related to the consolidation of the Pupil Transportation Fund as required by GASB Statement No. 54.

MCSWAIN UNION ELEMENTARY SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2017**

	Cafeteria Fund	Capital Facilities Fund	Capital Projects Blended Component Units Fund
ASSETS			
Deposits and investments	\$ 14,182	\$ 108	\$ 7,775
Receivables	28,068	-	-
Stores inventories	2,002	-	-
Total Assets	\$ 44,252	\$ 108	\$ 7,775
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 1,140	\$ -	\$ -
Due to other funds	15,249	-	-
Total Liabilities	16,389	-	-
Fund Balances:			
Nonspendable	2,502	-	-
Restricted	25,361	108	7,775
Total Fund Balances	27,863	108	7,775
Total Liabilities and Fund Balances	\$ 44,252	\$ 108	\$ 7,775

See accompanying note to supplementary information.

**Total
Non-Major
Governmental
Funds**

\$	22,065
	28,068
	2,002
\$	<u>52,135</u>

\$	1,140
	<u>15,249</u>
	<u>16,389</u>

	2,502
	<u>33,244</u>
	<u>35,746</u>

\$	<u>52,135</u>
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MCSWAIN UNION ELEMENTARY SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2017**

	Cafeteria Fund	Capital Facilities Fund	Capital Projects Blended Component Units Fund
REVENUES			
Federal sources	\$ 182,477	\$ -	\$ -
Other State sources	13,282	-	-
Other local sources	124,339	79,374	226,122
Total Revenues	320,098	79,374	226,122
EXPENDITURES			
Current			
Pupil services:			
Food services	288,943	-	-
Administration:			
All other administration	15,249	-	-
Plant services	1,511	6,835	-
Total Expenditures	305,703	6,835	-
Excess (Deficiency) of Revenues Over Expenditures	14,395	72,539	226,122
Other Financing Uses			
Transfers out	-	(107,297)	(267,000)
NET CHANGE IN FUND BALANCES	14,395	(34,758)	(40,878)
Fund Balance - Beginning	13,468	34,866	48,653
Fund Balance - Ending	\$ 27,863	\$ 108	\$ 7,775

See accompanying note to supplementary information.

**Total
Non-Major
Governmental
Funds**

\$	182,477
	13,282
	429,835
	<u>625,594</u>
	288,943
	15,249
	8,346
	<u>312,538</u>
	<u>313,056</u>
	(374,297)
	(61,241)
	96,987
\$	<u>35,746</u>

MCSWAIN UNION ELEMENTARY SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2017

NOTE 1 - PURPOSE OF SCHEDULES

Local Education Agency Organization Structure

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

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

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

Districts must maintain their instructional minutes at the 1986-1987 requirements as required by *Education Code* Section 46201.

Reconciliation of Annual Financial and Budget Report With Audited Financial Statements

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

Schedule of Financial Trends and Analysis

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

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

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

INDEPENDENT AUDITOR'S REPORTS



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

Governing Board
McSwain Union Elementary School District
Merced, 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 McSwain Union Elementary School District (the District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise McSwain Union Elementary School District's basic financial statements, and have issued our report thereon dated November 22, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of McSwain Union Elementary School District in a separate letter dated November 22, 2017.

Purpose of This Report

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

Varrink, Trine, Day & Co, LLP

Fresno, California
November 22, 2017



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

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INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
McSwain Union Elementary School District
Merced, California

Report on State Compliance

We have audited McSwain Union Elementary School District's compliance with the types of compliance requirements as identified in the *2016-2017 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* that could have a direct and material effect on each of the McSwain Union Elementary School District's State government programs as noted below for the year ended June 30, 2017.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the McSwain Union Elementary School District's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2016-2017 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about McSwain Union Elementary School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of McSwain Union Elementary School District's compliance with those requirements.

Unmodified Opinion

In our opinion, McSwain Union Elementary School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2017.

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

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

We did not perform procedures for Independent Study because the independent study ADA was under the level that requires testing.

We did not perform Continuation Education procedures because the program is not offered by the District.

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

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

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

We did not perform procedures for the After School Education and Safety Program because the District does not offer the program.

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

Additionally, the District does not operate any Charter Schools; therefore, we did not perform procedures for Charter School Programs.

Vannink, Trine, Day & Co, LLP

Fresno, California
November 22, 2017

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MCSWAIN UNION ELEMENTARY SCHOOL DISTRICT

**SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2017**

FINANCIAL STATEMENTS

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

FEDERAL AWARDS

The District's expenditures relating to Federal Awards was under the Single Audit threshold.

STATE AWARDS

Type of auditor's report issued on compliance for programs:	<u>Unmodified</u>
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MCSWAIN UNION ELEMENTARY SCHOOL DISTRICT

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017**

None reported.

MCSWAIN UNION ELEMENTARY SCHOOL DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017**

None reported.

MCSWAIN UNION ELEMENTARY SCHOOL DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017**

There were no audit findings reported in the prior year's schedule of financial statement findings.



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

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Governing Board
McSwain Union Elementary School District
Merced, California

In planning and performing our audit of the financial statements of McSwain Union Elementary School District, for the year ended June 30, 2017, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted a matter that is an opportunity for strengthening internal controls and operating efficiency. The following item represents a condition noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated November 22, 2017, on the government-wide financial statements of the District.

MCSWAIN ELEMENTARY SCHOOL - ASSOCIATED STUDENT BODY (ASB)

Timely Deposits

Observation

During our audit of cash receipts, we discovered funds collected by the site are not deposited to the bank in a timely manner. We found multiple deposits where funds were held on site for up to three months after the dated receipts. We also discovered the majority of deposits for the month are made on one day in each month. This can result in large balances being maintained at the site.

Recommendation

At a minimum, deposits should be made weekly to minimize the amount of cash held at the site. During weeks of high activity there may be a need to make more than one deposit. The District should establish guidelines for this procedure including the maximum cash on hand that should be maintained at the site.

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

Vavrinek, Trine, Day & Co., LLP

Fresno, California
November 22, 2017