

CYPRESS SCHOOL DISTRICT
AUDIT REPORT
For the Fiscal Year Ended
June 30, 2017



CYPRESS SCHOOL DISTRICT
For the Fiscal Year Ended June 30, 2017
Table of Contents

FINANCIAL SECTION

	<u>Page</u>
Independent Auditors' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position.....	13
Statement of Activities.....	14
Governmental Funds Financial Statements:	
Balance Sheet.....	15
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position.....	16
Statement of Revenues, Expenditures, and Changes in Fund Balances.....	17
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities.....	18
Proprietary Fund Financial Statements:	
Statement of Net Position.....	19
Statement of Revenues, Expenses, and Changes in Net Position.....	20
Statement of Cash Flows.....	21
Fiduciary Fund Financial Statement:	
Statement of Fiduciary Net Position.....	22
Notes to Financial Statements.....	23

REQUIRED SUPPLEMENTARY INFORMATION

Budgetary Comparison Schedule – General Fund.....	49
Schedule of Funding Progress.....	50
Schedule of Proportionate Share of the Net Pension Liability.....	51
Schedule of Pension Contributions.....	52
Notes to the Required Supplementary Information.....	53

SUPPLEMENTARY INFORMATION

Local Educational Agency Organization Structure.....	55
Schedule of Average Daily Attendance.....	56
Schedule of Instructional Time.....	57
Schedule of Financial Trends and Analysis.....	58
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements.....	59
Schedule of Expenditures of Federal Awards.....	60
Note to the Supplementary Information.....	61

CYPRESS SCHOOL DISTRICT

For the Fiscal Year Ended June 30, 2017

Table of Contents

OTHER INDEPENDENT AUDITORS' REPORTS

Page

Independent Auditors' 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*.....62

Independent Auditors' Report on State Compliance64

Independent Auditors' Report on Compliance For Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance66

FINDINGS AND QUESTIONED COSTS

Schedule of Audit Findings and Questioned Costs:

 Summary of Auditors' Results68

 Current Year Audit Findings and Questioned Costs69

 Summary Schedule of Prior Audit Findings72

Financial Section

(This page intentionally left blank)



INDEPENDENT AUDITORS' REPORT

Board of Trustees
Cypress School District
Cypress, 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 Cypress School District, as of and for the fiscal 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.

Auditors' 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, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Cypress School District, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal 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 3 through 12, budgetary comparison information on page 49, schedule of funding progress on page 50, schedule of proportionate share of the net pension liability on page 51, and schedule of pension contributions on page 52 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 District's basic financial statements. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements. The supplementary information on pages 56 to 59 and the schedule of expenditures of federal awards on page 60 are the responsibility of management and were derived from and relate 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 information is fairly stated in all material respects in relation to the basic financial statements as a whole. The information on page 55 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2017, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Nigro & Nigro, PC

Murrieta, California
November 8, 2017

CYPRESS SCHOOL DISTRICT

Management's Discussion and Analysis (Unaudited) For the Fiscal Year Ended June 30, 2017

This discussion and analysis of Cypress School District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2017. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- The District's overall financial status declined from last year, as the net position decreased to \$8.0 million. The decrease is primarily due to an increase in the net pension liability.
- Total governmental revenues were \$46.6 million, about \$0.9 million less than expenses.
- The total cost of basic programs was \$47.5 million. Because a portion of these costs were paid for with charges, fees, and intergovernmental aid, the net cost that required taxpayer funding was only \$38.9 million.
- Second period average daily attendance (grades K-6) increased by 16, or 0.4%.

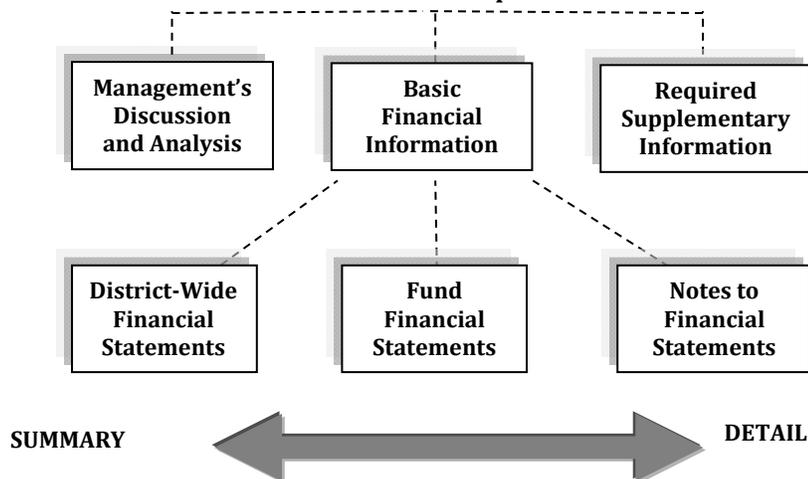
OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are district-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.
 - The *governmental funds* statements tell how basic services like regular and special education were financed in the short term as well as what remains for future spending.
 - Short and long-term financial information about the activities of the District that operate like businesses (self-insurance funds) are provided in the proprietary funds statements.

Figure A-1. Organization of Cypress School District's Annual Financial Report

The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.



CYPRESS SCHOOL DISTRICT

Management's Discussion and Analysis (Unaudited) For the Fiscal Year Ended June 30, 2017

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2. Major Features of the District-Wide and Fund Financial Statements

Type of Statements	District-Wide	Governmental Funds	Proprietary Funds	Fiduciary Fund
<i>Scope</i>	Entire District, except fiduciary activities	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities of the District that operate like a business, such as self-insurance funds	Instances in which the District administers resources on behalf of someone else, such as employee benefits plans
<i>Required financial statements</i>	<ul style="list-style-type: none"> Statement of Net Position Statement of Activities 	<ul style="list-style-type: none"> Balance Sheet Statement of Revenues, Expenditures & Changes in Fund Balances 	<ul style="list-style-type: none"> Statement of Net Position Statement of Revenues, Expenses & Changes in Fund Balance Statement of Cash Flows 	<ul style="list-style-type: none"> Statement of Fiduciary Net Position
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
<i>Type of asset/liability information</i>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both short-term and long-term; The District's funds do not currently contain nonfinancial assets, though they can	All assets and liabilities, both short-term and long-term; The District's funds do not currently contain nonfinancial assets, though they can
<i>Type of inflow/outflow information</i>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during the year, regardless of when cash is received or paid

The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

CYPRESS SCHOOL DISTRICT

*Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2017*

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

District-Wide Statements

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

The two district-wide statements report the District's net position and how it has changed. Net position – the difference between the District's assets and deferred outflows of resources and liabilities and deferred inflows of resources – is one way to measure the District's financial health, or *position*.

- Over time, increases and decreases in the District's net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's demographics and the condition of school buildings and other facilities.
- In the district-wide financial statements, the District's activities are categorized as *Governmental Activities*. Most of the District's basic services are included here, such as regular and special education, transportation, and administration. Property taxes and state aid finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (like repaying its long-term debt) or to show that is properly using certain revenues.

The District has three kinds of funds:

- **Governmental funds** – Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information on a separate reconciliation page that explains the relationship (or differences) between them.
- **Proprietary funds** – When the District charges other District funds for the services it provides, these services are reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and Statement of Activities. In fact, the District's internal service fund is included within the governmental activities reported in the district-wide statements but provides more detail and additional information, such as cash flows. The District uses the internal service fund to report activities that relate to the District's self-insured program for dental and vision insurance claims.

CYPRESS SCHOOL DISTRICT

Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2017

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

Fund Financial Statements (continued)

- **Fiduciary fund** – The District is the trustee, or fiduciary, for assets that belong to others. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position. The District's combined net position was lower on June 30, 2017, than it was the year before – decreasing 10.5% to \$8.0 million (See Table A-1).

Table A-1: Statement of Net Position

	Governmental Activities		Variance
	2017	2016 *	Increase (Decrease)
Assets			
Current assets	\$ 24,766,451	\$ 25,460,013	\$ (693,562)
Capital assets	74,816,864	73,764,886	1,051,978
Total assets	<u>99,583,315</u>	<u>99,224,899</u>	<u>358,416</u>
Deferred outflows of resources	<u>9,204,076</u>	<u>5,561,426</u>	<u>3,642,650</u>
Liabilities			
Current liabilities	3,182,450	3,864,703	(682,253)
Long-term liabilities	60,635,575	59,451,490	1,184,085
Net pension liability	35,241,564	28,638,798	6,602,766
Total liabilities	<u>99,059,589</u>	<u>91,954,991</u>	<u>7,104,598</u>
Deferred inflows of resources	<u>1,739,461</u>	<u>3,910,141</u>	<u>(2,170,680)</u>
Net position			
Net investment in capital assets	26,208,543	23,981,620	2,226,923
Restricted	9,611,234	9,814,377	(203,143)
Unrestricted	(27,831,436)	(24,874,804)	(2,956,632)
Total net position	<u>\$ 7,988,341</u>	<u>\$ 8,921,193</u>	<u>\$ (932,852)</u>

* as restated

Changes in net position, governmental activities. The District's total revenues decreased 28.8% to \$46.6 million (See Table A-2). The decrease is due primarily to proceeds from a property exchange in the prior year.

The total cost of all programs and services increased 12.8% to \$47.5 million. The District's expenses are predominantly related to educating and caring for students, 69.7%. The purely administrative activities of the District accounted for just 6.1% of total costs. A significant contributor to the increase in costs was increases in staffing costs.

CYPRESS SCHOOL DISTRICT

Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2017

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (continued)

Table A-2: Statement of Activities

	Governmental Activities		Variance
	2017	2016	Increase (Decrease)
Revenues			
Program Revenues:			
Charges for services	\$ 1,258,617	\$ 1,042,633	\$ 215,984
Operating grants and contributions	7,394,500	6,401,040	993,460
Capital grants and contributions	4	-	4
General Revenues:			
Federal and state aid not restricted	14,548,473	15,490,410	(941,937)
Property taxes	20,560,657	19,492,252	1,068,405
Other general revenues	2,833,217	23,027,189	(20,193,972)
Total Revenues	46,595,468	65,453,524	(18,858,056)
Expenses			
Instruction-related	29,807,787	26,862,643	2,945,144
Pupil services	3,335,236	2,885,231	450,005
Administration	2,904,881	2,573,527	331,354
Plant services	4,172,559	4,152,080	20,479
All other activities	7,307,857	5,663,497	1,644,360
Total Expenses	47,528,320	42,136,978	5,391,342
Increase (decrease) in net position	\$ (932,852)	\$ 23,316,546	\$ (24,249,398)

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed this year, its governmental funds reported a combined fund balance of \$20.5 million, which is below last year's ending fund balance of \$20.9 million. The primary cause of the decreased fund balance is capital outlay related to the property exchanges.

Table A-3: The District's Fund Balances

Fund	Fund Balances				June 30, 2017
	July 1, 2016	Revenues	Expenditures	Other Sources and (Uses)	
General Fund	\$ 10,464,079	\$ 40,973,766	\$ 39,493,399	\$ (1,500,000)	\$ 10,444,446
Child Development Fund	-	76,651	176,651	100,000	-
Cafeteria Fund	335,038	1,713,413	1,767,040	-	281,411
Deferred Maintenance Fund	1,439,473	11,878	826	-	1,450,525
Building Fund	1	-	-	(1)	-
Capital Facilities Fund	1,804,051	493,145	1,388	-	2,295,808
County School Facilities Fund	514	4	-	-	518
Special Reserve Fund (Capital Outlay)	4,723,071	1,023,677	3,055,695	1,400,001	4,091,054
Capital Outlay Fund for Blended Component Units	8	-	-	-	8
Bond Interest and Redemption Fund	1,352,536	1,702,321	1,834,712	-	1,220,145
Debt Service Fund for Blended Component Units	736,660	451,040	450,187	-	737,513
	\$ 20,855,431	\$ 46,445,895	\$ 46,779,898	\$ -	\$ 20,521,428

CYPRESS SCHOOL DISTRICT

Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2017

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (continued)

General Fund Budgetary Highlights

Over the course of the year, the District revised the annual operating budget several times. The major budget amendments fall into these categories:

- Revenues – increased by \$2.1 million primarily to reflect federal and state budget actions.
- Salaries and benefits costs – increased \$1.6 million due to changes in collective bargaining agreements.
- Other non-capital costs – increased \$1.0 million to re-budget carryover funds and revise operational cost estimates.

While the District's final budget for the General Fund anticipated that expenditures would exceed revenues by about \$1.0 million, the actual results for the year show that revenues exceeded expenditures by roughly \$1.5 million. Actual revenues were \$0.2 million more than anticipated, and expenditures were \$2.2 million less than budgeted. That amount consists primarily of restricted categorical program dollars that were not spent as of June 30, 2017, that will be carried over into the 2017-18 budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2016-17 the District had invested \$3.6 million in new capital assets, related to property exchanges and facilities updates throughout the District. (More detailed information about capital assets can be found in Note 6 to the financial statements). Total depreciation expense for the year was approximately \$2.6 million.

Table A-4: Capital Assets at Year End, Net of Depreciation

	Governmental Activities		Variance
	2017	2016	Increase (Decrease)
Land	\$ 17,890,905	\$ 17,890,905	\$ -
Improvement of sites	3,045,204	2,138,955	906,249
Buildings	52,726,649	48,830,047	3,896,602
Equipment	1,154,106	1,086,526	67,580
Construction in progress	-	3,818,453	(3,818,453)
Total	<u>\$ 74,816,864</u>	<u>\$ 73,764,886</u>	<u>\$ 1,051,978</u>

Long-Term Debt

At year-end the District had approximately \$60.6 million of long-term debt as shown in Table A-5. (More detailed information about the District's long-term liabilities is presented in Note 7 to the financial statements).

CYPRESS SCHOOL DISTRICT

*Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2017*

CAPITAL ASSET AND DEBT ADMINISTRATION (continued)

Table A-5: Outstanding Long-Term Debt at Year-End

	Governmental Activities		Variance
	2017	2016	Increase (Decrease)
General obligation bonds	\$ 51,967,809	\$ 50,803,241	\$ 1,164,568
Certificates of participation	6,909,587	7,233,315	(323,728)
Compensated absences	331,421	319,999	11,422
Other postemployment benefits	1,426,758	1,094,935	331,823
Total	<u>\$ 60,635,575</u>	<u>\$ 59,451,490</u>	<u>\$ 1,184,085</u>

FACTORS BEARING ON THE DISTRICT'S FUTURE

The Governor signed the 2017-18 *Budget Act* and other budget-related bills on June 27, 2017.

Proposition 98

Overview

State budgeting for schools and community colleges is based primarily on Proposition 98, approved by voters in 1988 and amended in 1990. In this section, we provide an overview of Proposition 98 changes under the enacted budget package.

Proposition 98 Establishes Minimum Spending Level

Proposition 98 establishes a minimum spending requirement commonly called the minimum guarantee. The minimum guarantee is determined by three main formulas (known as tests) and various inputs, including General Fund revenue, per capita personal income, and K-12 attendance. The state can spend at the minimum guarantee or any level above it. Spending above the minimum guarantee one year typically becomes part of the base for calculating the minimum guarantee the next year. If the minimum guarantee increases after budget enactment due to updated inputs, the state owes a "settle-up" obligation. In some years, the state also creates or pays "maintenance factor." Maintenance factor is created when General Fund revenue is weak relative to per capita personal income and is paid when General Fund revenue is stronger.

2015-16 and 2016-17 Minimum Guarantees Down but Total Spending Up Slightly

The 2015-16 minimum guarantee has decreased \$379 million due to lower-than-expected General Fund revenue. Proposition 98 spending that year, however, has increased \$53 million due to various minor adjustments involving the Local Control Funding Formula (LCFF) and community college apportionments. The 2016-17 minimum guarantee has decreased \$558 million, again due to lower estimates of General Fund revenue. Proposition 98 spending that year has decreased by \$484 million, but total spending, including a settle-up payment of \$514 million, is up slightly (\$29 million) from the June 2016 level. The settle-up payment allows the state to cover some 2016-17 LCFF costs using funds set aside for Proposition 2 (2014) debt payments. In both 2015-16 and 2016-17, Proposition 98 spending is above the calculated minimum guarantees.

CYPRESS SCHOOL DISTRICT

*Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2017*

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

Proposition 98 (continued)

Overview (continued)

2017-18 Spending Up \$3.1 Billion Over Revised 2016-17 Level

In 2017-18, total spending across all segments is \$74.5 billion, an increase of \$3.1 billion (4.4 percent) from the revised 2016-17 level. For 2017-18, the state funds at the estimate of the minimum guarantee. This estimate builds upon the higher levels of spending provided in 2015-16 and 2016-17. (Had the state not funded above the guarantee in those two years, the 2017-18 guarantee would have been \$542 million lower.) Test 2 is the operative test in 2017-18, with the change in the guarantee attributable to a 3.7 percent increase in per capita personal income and a 0.05 percent decline in K-12 attendance. The increase in the guarantee also reflects a maintenance factor payment of \$536 million. Under the administration's estimates, the state would end 2017-18 with an outstanding maintenance factor obligation of \$900 million.

About One-Third of Increase Covered With Higher Property Tax Revenue

Of the total Proposition 98 spending provided in 2017-18, \$52.6 billion is state General Fund and \$21.9 billion is local property tax revenue. From 2016-17 to 2017-18, state General Fund increases \$2.1 billion (accounting for about two-thirds of the \$3.1 billion increase in spending) and property tax revenue increases by \$1 billion. The primary factor explaining the growth in property tax revenue is the projected 5.3 percent growth in assessed property values, which is similar to the average growth rate over the past 20 years. Regarding local revenue associated with the dissolution of redevelopment agencies, the budget plan assumes a net increase of \$31 million. This consists of a \$131 million increase in the ongoing revenue shifted to schools and community colleges, offset by a \$100 million decrease in revenue from the sale of assets formerly owned by redevelopment agencies.

Spending Package Reduces Outstanding Settle-Up Obligation by \$603 Million

The budget plan includes a \$603 million settle-up payment related to meeting the 2009-10 minimum guarantee. This payment reduces the state's outstanding settle-up obligation from slightly above \$1 billion to \$440 million. Of the \$603 million provided, the budget plan allocates \$514 million for covering 2016-17 LCFF costs, \$86 million for the community college guided pathways initiative, and \$3 million for the Career Technical Education Incentive Grant program. The state budget package scores all of the settle-up spending as a Proposition 2 debt payment.

K-12 Education

\$64.7 Billion Proposition 98 Funding for K-12 Education in 2017-18

The budgeted 2017-18 level is \$2.7 billion (4.3 percent) more than revised 2016-17 level and \$2.2 billion (3.6 percent) more than the 2016-17 Budget Act level. The budget increases funding per student by \$450 (4.3 percent) over the 2016-17 Budget Act level, bringing Proposition 98 funding per student up to \$10,863.

Package Includes Mix of Ongoing and One-Time Spending

The budget includes \$2.4 billion in augmentations for K-12 education. Of these augmentations, \$1.5 billion are ongoing increases and \$933 million are one-time initiatives. In addition to these changes, the budget package includes \$328 million in one-time initiatives funded from other sources. (Of this amount, \$325 million is from Proposition 98 reversion dollars and \$3 million is from a settle-up payment. Of the reversion dollars, \$114 million is for a fund swap primarily relating to special education.) The budget also authorizes \$593 million from Proposition 51 (2016) general obligation bond proceeds for school facilities.

CYPRESS SCHOOL DISTRICT

*Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2017*

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

Proposition 98 (continued)

General Purpose Funding

Accelerates Implementation of LCFF for School Districts and Charter Schools

The budget provides an additional \$1.4 billion ongoing Proposition 98 funding for this purpose, bringing total LCFF funding for school districts and charter schools to \$57.4 billion, a 2.7% increase over the revised 2016-17 level. The administration estimates this funding will result in the LCFF-target level being 97 percent-funded. School districts and charter schools may use LCFF monies for any educational purpose.

Funds One-Time Discretionary Grants

The largest one-time augmentation for K-12 education is \$877 million that local education agencies (LEAs) may use for any educational purpose. Funding is distributed based on average daily attendance (\$147 per ADA). If an LEA has unpaid mandate claims, funding counts toward those claims. As most LEAs do not have any such claims, we estimate only about one-third (\$268 million) of the funding will end up reducing the K-12 mandates backlog. We estimate the K-12 mandates backlog will be \$799 million at the end of 2017-18.

Other Changes

Specifies Use of Remaining Proposition 39 Funds and Extends Energy-Efficiency Programs Indefinitely

The budget provides \$423 million Proposition 98 funding for energy-efficiency projects at schools and community colleges. This reflects the fifth and final year of Proposition 39 (2012) funding. Trailer legislation, however, extends the date for schools to use this funding by one year, to June 30, 2019, and sets rules for how any remaining uncommitted funds are to be used. The first \$75 million in remaining funds is earmarked for school districts and COEs to replace or retrofit school buses. Priority is given to LEAs having the oldest buses, serving disadvantaged communities, or serving high shares of low-income students. The next \$100 million is earmarked for a competitive grant program to provide K-12 LEAs with low- and no-interest loans for energy projects. Any funding still remaining is to be distributed as grants to K-12 LEAs according to Proposition 39 rules. The trailer legislation also extends the Proposition 39 energy-efficiency programs for K-12 and CCC LEAs beginning in 2018-19, contingent upon funds being made available through the annual budget act or other statute.

Augments After School Education and Safety (ASES) Program

Proposition 49, passed by the voters in 2002, requires the state to provide \$550 million in Proposition 98 funds annually for the ASES program. Since Proposition 49 was enacted, ASES providers have received \$7.50 per child per day. The budget increases ASES funding by \$50 million (9%)—bringing total funding to \$600 million. The augmentation will increase the per-child per-day rate.

School Facilities

Provides First Installment of Proposition 51 Bond Funding for School Facilities

Passed by the voters in November 2016, Proposition 51 authorizes the state to sell \$9 billion in general obligation bonds—\$7 billion for schools and \$2 billion for community colleges. The state plans to issue \$593 million of these bonds for K-12 facility projects in 2017-18. This would fully fund the state's list of \$368 million in already approved facility projects, as well as \$225 million in additional projects.

CYPRESS SCHOOL DISTRICT

*Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2017*

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

Proposition 98 (continued)

School Facilities (continued)

Establishes New Audit Rules

Trailer legislation shifts audit responsibilities for state-funded school facility projects from the Office of Public School Construction to local independent auditors. Moving forward, the local auditors are to review facility expenditures to ensure that they comply with the rules of the state's School Facilities Program. In June 2017, the State Allocation Board also enacted a regulatory change requiring districts to sign grant agreements prior to receiving state funding that specify allowable project expenditures.

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the District's Business Office at (714) 220-6941.

CYPRESS SCHOOL DISTRICT*Statement of Net Position**June 30, 2017*

	Total Governmental Activities
ASSETS	
Cash	\$ 23,139,521
Accounts receivable	1,571,173
Inventories	34,592
Other current assets	21,165
Non-depreciable assets	17,890,905
Depreciable assets	79,678,522
Less accumulated depreciation	<u>(22,752,563)</u>
Total assets	<u>99,583,315</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to pensions	7,445,261
Deferred amounts on refunding	<u>1,758,815</u>
Total deferred outflows of resources	<u>9,204,076</u>
LIABILITIES	
Accounts payable	3,097,567
Unearned revenue	84,883
Long-term liabilities:	
Portion due or payable within one year	1,293,675
Portion due or payable after one year	59,341,900
Net pension liability	<u>35,241,564</u>
Total liabilities	<u>99,059,589</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to pensions	<u>1,739,461</u>
NET POSITION	
Net investment in capital assets	26,208,543
Restricted for:	
Capital projects	6,387,388
Debt service	1,957,658
Categorical and nutrition programs	1,266,188
Unrestricted	<u>(27,831,436)</u>
Total net position	<u>\$ 7,988,341</u>

CYPRESS SCHOOL DISTRICT
Statement of Activities
For the Fiscal Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
Governmental Activities				
Instructional Services:				
Instruction	\$ 26,297,398	\$ 324,271	\$ 4,589,399	\$ 4
Instruction-Related Services:				
Supervision of instruction	1,055,769	23,133	231,133	-
Instructional library, media and technology	628,901	-	3,532	-
School site administration	1,825,719	802	79,974	-
Pupil Support Services:				
Home-to-school transportation	447,420	1,297	10,931	-
Food services	1,806,600	823,027	890,386	-
All other pupil services	1,081,216	22,219	390,936	-
General Administration Services:				
Data processing services	687,975	-	-	-
Other general administration	2,216,906	615	104,590	-
Plant Services	4,172,559	-	543,732	-
Community Services	164,963	5,676	64,400	-
Enterprise Activities	3,311	-	141	-
Interest on Long-Term Debt	3,822,984	-	-	-
Other Outgo	726,246	57,577	485,346	-
Depreciation (unallocated)	2,590,353	-	-	-
Total Governmental Activities	<u>\$ 47,528,320</u>	<u>\$ 1,258,617</u>	<u>\$ 7,394,500</u>	<u>\$ 4</u>
General Revenues:				
Property taxes				20,560,657
Federal and state aid not restricted to specific purpose				14,548,473
Interest and investment earnings				172,746
Miscellaneous				<u>2,660,471</u>
Total general revenues				<u>37,942,347</u>
Change in net position				(932,852)
Net position - July 1, 2016, as originally stated				<u>8,871,193</u>
Adjustment for restatement (Note 14)				50,000
Net position - July 1, 2016, as restated				<u>8,921,193</u>
Net position - June 30, 2017				<u>\$ 7,988,341</u>

CYPRESS SCHOOL DISTRICT
Balance Sheet – Governmental Funds
June 30, 2017

	General Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total Governmental Funds
ASSETS				
Cash	\$ 14,683,056	\$ 2,473,196	\$ 4,553,681	\$ 21,709,933
Accounts receivable	1,341,499	2,260	134,270	1,478,029
Stores inventories	-	-	34,592	34,592
Due from other funds	41,107	1,697,650	51,407	1,790,164
Other current assets	21,165	-	-	21,165
Total Assets	<u>\$ 16,086,827</u>	<u>\$ 4,173,106</u>	<u>\$ 4,773,950</u>	<u>\$ 25,033,883</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 2,436,579	\$ 82,052	\$ 118,777	\$ 2,637,408
Due to other funds	1,749,057	-	41,107	1,790,164
Unearned revenue	6,220	-	78,663	84,883
Total Liabilities	<u>4,191,856</u>	<u>82,052</u>	<u>238,547</u>	<u>4,512,455</u>
Fund Balances				
Nonspendable	15,000	-	34,592	49,592
Restricted	984,777	4,091,054	4,500,811	9,576,642
Assigned	7,468,238	-	-	7,468,238
Unassigned	3,426,956	-	-	3,426,956
Total Fund Balances	<u>11,894,971</u>	<u>4,091,054</u>	<u>4,535,403</u>	<u>20,521,428</u>
Total Liabilities and Fund Balances	<u>\$ 16,086,827</u>	<u>\$ 4,173,106</u>	<u>\$ 4,773,950</u>	<u>\$ 25,033,883</u>

CYPRESS SCHOOL DISTRICT

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position June 30, 2017

Total fund balances - governmental funds		\$ 20,521,428
Amounts reported for governmental activities in the statement of net position are different because capital assets used for governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$97,569,427, and the accumulated depreciation is (\$22,752,563).		74,816,864
In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred. The additional liability for unmatured interest owing at the end of the period was:		(460,155)
In governmental funds, interest subsidies received from Qualified School Construction Bonds (QSCB) are recognized in the period that they are received. In the government-wide statements, they are recognized in the period that they are earned. The federal interest subsidies included in receivables in the government-wide statements were:		92,543
In governmental funds, only current liabilities are reported. In the statement of net position, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consist of:		
	General obligation bonds payable	51,967,809
	Certificates of participation payable	6,909,587
	Other postemployment benefits payable	1,426,758
	Compensated absences payable	<u>331,421</u>
		(60,635,575)
The net pension liability is not due and payable in the current reporting period, and therefore is not reported as a liability in the fund financial statements.		(35,241,564)
Deferred amounts on refunding represent amounts paid to an escrow agent in excess of the outstanding debt at the time of the payment for refunded bonds which have been defeased. In the government-wide statements it is recognized as a deferred outflow of resources. The remaining deferred amounts on refunding at the end of the period were:		1,758,815
In governmental funds, deferred outflows and inflows of resources relating to pensions are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources relating to pensions are reported.		
	Deferred outflows of resources	7,445,261
	Deferred inflows of resources	(1,739,461)
Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because internal service funds are presumed to operate for the benefit of governmental activities, assets and liabilities of internal service funds are reported with governmental activities in the statement of net position. Net position for internal services funds at the end of the period is:		<u>1,430,185</u>
Total net position - governmental activities		<u><u>\$ 7,988,341</u></u>

CYPRESS SCHOOL DISTRICT

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds For the Fiscal Year Ended June 30, 2017

	General Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total Governmental Funds
REVENUES				
LCFF sources	\$ 30,676,648	\$ -	\$ -	\$ 30,676,648
Federal sources	1,437,370	-	1,162,343	2,599,713
Other state sources	6,068,971	-	136,746	6,205,717
Other local sources	2,802,655	1,023,677	3,137,485	6,963,817
Total Revenues	40,985,644	1,023,677	4,436,574	46,445,895
EXPENDITURES				
Current:				
Instructional Services:				
Instruction	25,607,147	-	-	25,607,147
Instruction-Related Services:				
Supervision of instruction	1,030,392	-	-	1,030,392
Instructional library, media and technology	734,120	-	-	734,120
School site administration	1,749,788	-	-	1,749,788
Pupil Support Services:				
Home-to-school transportation	448,693	-	-	448,693
Food services	-	-	1,767,040	1,767,040
All other pupil services	1,063,911	-	-	1,063,911
Enterprise Activities	3,286	-	-	3,286
General Administration Services:				
Data processing services	661,367	-	-	661,367
Other general administration	2,450,655	-	15,149	2,465,804
Plant Services	4,148,404	59,217	1,388	4,209,009
Community Services	-	-	161,502	161,502
Capital Outlay	871,966	2,431,440	-	3,303,406
Intergovernmental Transfers	724,496	-	-	724,496
Debt Service:				
Principal	-	335,000	788,150	1,123,150
Interest	-	230,038	1,496,749	1,726,787
Total Expenditures	39,494,225	3,055,695	4,229,978	46,779,898
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,491,419	(2,032,018)	206,596	(334,003)
OTHER FINANCING SOURCES (USES)				
Interfund transfers in	-	1,400,001	100,000	1,500,001
Interfund transfers out	(1,500,000)	-	(1)	(1,500,001)
Total Other Financing Sources and Uses	(1,500,000)	1,400,001	99,999	-
Net Change in Fund Balances	(8,581)	(632,017)	306,595	(334,003)
Fund Balances, July 1, 2016	11,903,552	4,723,071	4,228,808	20,855,431
Fund Balances, June 30, 2017	\$ 11,894,971	\$ 4,091,054	\$ 4,535,403	\$ 20,521,428

CYPRESS SCHOOL DISTRICT

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities For the Fiscal Year Ended June 30, 2017

Total net change in fund balances - governmental funds \$ (334,003)

Amounts reported for governmental *activities* in the statement of activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is:

Expenditures for capital outlay	3,642,331	
Depreciation expense	<u>(2,590,353)</u>	1,051,978

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

1,123,150

In governmental funds, postemployment benefits costs are recognized as expenditures in the period they are paid. In the government-wide statements, postemployment benefits costs are recognized in the period that they are incurred. The increase in the net OPEB liability at the end of period was:

(331,823)

In governmental funds, if debt is issued at a premium or a discount, the premium or discount is recognized as an other financing source in the period it is incurred. In the government-wide statements, the premium or discount is amortized as interest over the life of the debt. Amortization of premium, less discounts, for the period is:

148,675

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

(2,112,665)

Deferred amounts on refunding represent amounts paid to an escrow agent in excess of the outstanding debt at the time of the payment for refunded bonds which have been defeased. In governmental funds these charges are recognized as an expenditure. However, in the statement of activities, these amounts are amortized over the life of the debt. The difference between current year amounts and the current year amortization is:

(140,705)

In governmental funds, interest subsidies received from Qualified School Construction Bonds (QSCB) are recognized in the period that they are received. In the government-wide statements, they are recognized in the period that they are earned. The federal interest subsidies included in receivables in the government-wide statements were, less amounts accrued in the prior year were:

(3,214)

In governmental funds, pension costs are recognized when employer contributions are made. In the statement of activities, pension costs are recognized on the accrual basis. This year, differences between accrual-basis pension costs and actual employer contributions were:

(648,731)

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

12,581

In the statement of activities, compensated absences are measured by the amounts *earned* during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually *paid*).

(11,422)

The internal service fund is used by management to charge the cost of self-insurance activities. The net revenue (expense) of the internal service fund is reported with governmental activities.

313,327

Change in net position of governmental activities \$ (932,852)

CYPRESS SCHOOL DISTRICT
Statement of Net Position – Proprietary Fund
June 30, 2017

	Governmental Activities Internal Service Fund
ASSETS	
Cash	\$ 1,429,588
Accounts receivable	601
	<hr/>
Total Assets	1,430,189
LIABILITIES	
Accounts payable	4
	<hr/>
NET POSITION	
Restricted	\$ 1,430,185
	<hr/> <hr/>

CYPRESS SCHOOL DISTRICT*Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Fund
For the Fiscal Year Ended June 30, 2017*

	Governmental Activities Internal Service Fund
OPERATING REVENUES	
Self-insurance premiums	\$ 3,603,624
OPERATING EXPENSES	
Payments for services	<u>3,297,444</u>
Operating Income (Loss)	<u>306,180</u>
NON-OPERATING REVENUES	
Interest income	<u>7,147</u>
Change in Net Position	<u>313,327</u>
Net Position, July 1, 2016	1,066,858
Adjustment for Restatement (See Note 14)	<u>50,000</u>
Net Position, July 1, 2016, as restated	<u>1,116,858</u>
Net Position, June 30, 2017	<u><u>\$ 1,430,185</u></u>

CYPRESS SCHOOL DISTRICT
Statement of Cash Flows – Proprietary Fund
For the Fiscal Year Ended June 30, 2017

	Governmental Activities Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from assessments made to other funds	\$ 3,614,595
Cash payments for payroll, insurance and operating costs	<u>(3,297,459)</u>
Net cash provided (used) by operating activities	317,136
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	<u>7,246</u>
Net increase (decrease) in cash	<u>324,382</u>
Cash, July 1, 2016	1,055,206
Adjustment for restatement (See Note 14)	<u>50,000</u>
Cash, July 1, 2016, as restated	<u>1,105,206</u>
Cash, June 30, 2017	<u><u>\$ 1,429,588</u></u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ 306,180
Changes in operating assets and liabilities:	
Decrease in accounts receivable	10,971
Increase in estimated claim liability	<u>(15)</u>
Net cash provided (used) by operating activities	<u><u>\$ 317,136</u></u>

CYPRESS SCHOOL DISTRICT
Statement of Fiduciary Net Position
June 30, 2017

	Agency Fund
	125 Plan Fund
ASSETS	
Cash	\$ 34,156
Total Assets	<u>\$ 34,156</u>
LIABILITIES	
Due to employee groups	\$ 34,156
Total Liabilities	<u>\$ 34,156</u>

CYPRESS SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cypress School District (the "District") accounts for its financial transactions in accordance with the policies and procedures of the California Department of Education's *California School Accounting Manual*. The accounting policies of the District conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. The following is a summary of the more significant policies:

A. Reporting Entity

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

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

For financial reporting purposes, the component units have a financial and operational relationship which meets the reporting entity definition criteria of the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and thus are included in the financial statements using the blended presentation method as if they were part of the District's operations because the governing board of the component units is essentially the same as the governing board of the District and because their purpose is to finance the construction of facilities to be used for the direct benefit of the District.

The Cypress School District Public Financing Corporation (the Corporation) financial activity is presented in the financial statements as the Capital Projects for Blended Component Units Fund and the Debt Service for Blended Component Units Fund. Certificates of participation and other debt 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 Corporation.

B. Basis of Presentation, Basis of Accounting

1. Basis of Presentation

Government-Wide Financial Statements

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

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function.

CYPRESS SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation, Basis of Accounting (continued)

1. Basis of Presentation (continued)

Government-Wide Financial Statements (continued)

Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) 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, including all taxes, are presented as general revenues.

Fund Financial Statements

The fund financial statements provide information about the District's funds, including its fiduciary funds and blended component units. Separate statements for each fund category - *governmental*, *proprietary*, and *fiduciary* - are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

Major Governmental Funds

The District maintains the following major governmental funds:

General Fund: This fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund. The District also maintains a Deferred Maintenance Fund. Under the flexibility provisions of current statute that allow certain formerly restricted revenues to be used for any educational purpose, the Deferred Maintenance Fund does not currently meet the definition of special revenue funds as it is no longer primarily composed of restricted or committed revenue sources. Because this fund does not meet the definition of special revenue funds under GASB 54, the activity in this fund is being reported within the General Fund.

Special Reserve Fund for Capital Outlay Projects: This fund is used to account for funds set aside for Board designated construction projects and for proceeds from the sale of real property.

Non-Major Governmental Funds

The District maintains the following non-major governmental funds:

Special Revenue Funds:

Child Development Fund: This fund is used to account for resources restricted for child development programs maintained by the District.

Cafeteria Fund: This fund is used to account for revenues received and expenditures made to operate the District's food service operations.

CYPRESS SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation, Basis of Accounting (continued)

1. Basis of Presentation (continued)

Non-Major Governmental Funds (continued)

Capital Projects Funds:

Building Fund: This fund is used to account for the acquisition of major governmental capital facilities and buildings from the sale of general obligation bonds and bond anticipation notes.

Capital Facilities Fund: This fund is used to account for resources received from developer impact fees assessed under provisions of the California Environmental Quality Act.

County School Facilities Fund: This fund is used to account for state apportionments provided for modernization of school facilities under SB50.

Capital Projects Fund for Blended Component Units: This fund is used to account for the activity of the certificates of participation.

Debt Service Funds:

Bond Interest and Redemption Fund: This fund is used to account for the accumulation of resources for, and the repayment of, District bonds, interest, and related costs.

Debt Service Fund for Blended Component Units: This fund is used to account for the accumulation of resources for the repayment of certificates of participation.

Proprietary Funds

Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows. Proprietary funds are classified as enterprise or internal service. The District has the following proprietary fund:

Dental and Vision Self-Insurance Fund: This fund may be used to account for resources committed to pay the costs of the District's vision and dental benefits and claims for its employees.

Fiduciary Funds

Fiduciary fund reporting focuses on net position and changes in net position. Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore cannot be used to support the District's own programs. The fiduciary fund category includes pension (and other employee benefit) trust funds, investment trust funds, private-purpose trust funds, and agency funds. The District maintains the following fiduciary funds:

Section 125 Employee Benefit Plan: The District maintains this fund to hold amounts that are collected on behalf of employees for benefits.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation, Basis of Accounting (continued)

2. Measurement Focus, Basis of Accounting

Government-Wide, Proprietary, and Fiduciary Fund Financial Statements

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and financing from capital leases are reported as other financing sources.

3. 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. 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 requirements. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Budgetary Data

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

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for. For budget purposes, on behalf payments have not been included as revenue and expenditures as required under generally accepted accounting principles.

D. Encumbrances

Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid. All encumbrances are liquidated as of June 30.

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

1. Cash and Cash Equivalents

The District considers cash and cash equivalents to be cash on hand and demand deposits. In addition, because the Treasury Pool is sufficiently liquid to permit withdrawal of cash at any time without prior notice or penalty, equity in the pool is also deemed to be a cash equivalent.

2. Inventories and Prepaid Items

Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future periods and are recorded as prepaid items.

3. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets, donated works of art and similar items, and capital assets received in a service concession arrangement are reported at acquisition value rather than fair value. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Description	Estimated Lives
Buildings and Improvements	25-50 years
Furniture and Equipment	15-20 years
Vehicles	8 years

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

4. Unearned Revenue

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

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

5. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has two items that qualify for reporting in this category. The first item is related to its pension plans as more fully described in the footnote entitled "Pension Plans". The second is deferred amount on refunding, which resulted from the difference in the carrying value of refunded debt and its reacquisition price. This amount is shown as deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. The District has one item that qualifies for reporting in this category. That item is to recognize the District's proportionate share of the deferred inflows of resources related to its pension plans as more fully described in the footnote entitled "Pension Plans".

6. Compensated Absences

The liability for compensated absences reported in the government-wide statements consists of unpaid, accumulated vacation leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

7. 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 District's California State Teachers Retirement System (CalSTRS) and California Public Employees' Retirement System (CalPERS) plans and addition 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. Investments are reported at fair value.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

8. Fund Balances

The fund balance for governmental funds is reported in classifications based on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

Nonspendable: Fund balance is reported as nonspendable when the resources cannot be spent because they are either in a nonspendable form or legally or contractually required to be maintained intact. Resources in nonspendable form include inventories and prepaid assets.

Restricted: Fund balance is reported as restricted when the constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provision or by enabling legislation.

Committed: The District's highest decision-making level of authority rests with the District's Board. Fund balance is reported as committed when the Board passes a resolution that places specified constraints on how resources may be used. The Board can modify or rescind a commitment of resources through passage of a new resolution.

Assigned: Resources that are constrained by the District's intent to use them for a specific purpose, but are neither restricted nor committed, are reported as assigned fund balance. Intent may be expressed by either the Board, committees (such as budget or finance), or officials to which the Board has delegated authority.

Unassigned: Unassigned fund balance represents fund balance that has not been restricted, committed, or assigned and may be utilized by the District for any purpose. When expenditures are incurred, and both restricted and unrestricted resources are available, it is the District's policy to use restricted resources first, then unrestricted resources in the order of committed, assigned, and then unassigned, as they are needed.

9. Net Position

Net position is classified into three components: net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

- **Net investment in capital assets** - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- **Restricted** - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

9. Net Position (continued)

- **Unrestricted net position** - This component of net position consists of net position that does not meet the definition of "net investment in capital assets" or "restricted".

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

F. Minimum Fund Balance Policy

During the 2010-11 fiscal year, pursuant to GASB Statement No. 54, the District adopted a minimum fund balance policy for the General Fund in order to protect the District against revenue shortfalls or unpredicted expenditures. The policy requires a Reserve for Economic Uncertainties consisting of unassigned amounts equal to no less than three percent of total General Fund expenditures and other financing uses.

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.

G. Property Tax Calendar

The County is responsible for the assessment, collection, and apportionment of property taxes for all jurisdictions including the schools and special districts within the County. The Board of Supervisors levies property taxes as of September 1 on property values assessed on July 1. Secured property tax payments are due in two equal installments. The first is generally due November 1 and is delinquent with penalties on December 10, and the second is generally due on February 1 and is delinquent with penalties on April 10. Secured property taxes become a lien on the property on January 1.

H. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reported period. Actual results could differ from those estimates.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. New GASB Pronouncements

During the 2016-17 fiscal year, the following GASB Pronouncements became effective:

1. Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68 (Issued 06/15)*

The requirements of this Statement extend the approach to accounting and financial reporting established in Statement 68 to all pensions, with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in Statement 68 should not be considered pension plan assets. It also requires that information similar to that required by Statement 68 be included in notes to financial statements and required supplementary information by all similarly situated employers and nonemployer contributing entities.

2. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (Issued 06/15)*

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*. Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. The scope of this Statement includes OPEB plans – defined benefit and defined contribution – administered through trusts that meet the following criteria:

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the OPEB plan administrator. If the plan is a defined benefit OPEB plan, plan assets also are legally protected from creditors of the plan members.

3. Statement No. 77, *Tax Abatement Disclosures (Issued 08/15)*

For financial reporting purposes, this Statement defines a tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens. This Statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements, and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. New GASB Pronouncements (continued)

4. Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans (Issued 12/15)*

This Statement amends the scope and applicability of Statement 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).

5. Statement No. 80, *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14 (Issued 01/16)*

This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member.

6. Statement No. 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73 (Issued 03/16)*

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 68, and Amendments to Certain Provisions of GASB Statements 67 and 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.

CYPRESS SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2017

NOTE 2 – CASH

Cash at June 30, 2017, is reported at fair value and consisted of the following:

	Governmental Activities			Fiduciary Funds
	Governmental Funds	Proprietary Fund	Total	
Pooled Funds:				
Cash in County Treasury	\$ 20,956,572	\$ 1,379,588	\$ 22,336,160	\$ -
Total Pooled Funds	20,956,572	1,379,588	22,336,160	-
Deposits:				
Cash on hand and in banks	-	-	-	34,156
Cash in revolving fund	15,000	50,000	65,000	-
Cash with fiscal agent	737,521	-	737,521	-
Cash collections awaiting deposits	840	-	840	-
Total Deposits	753,361	50,000	803,361	34,156
Total Cash	\$ 21,709,933	\$ 1,429,588	\$ 23,139,521	\$ 34,156

Pooled Funds

In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the County Treasury. The County pools and invests the cash. These pooled funds are carried at cost which approximates fair value. Interest earned is deposited annually to participating funds. Any investment losses are proportionately shared by all funds in the pool.

Because the District's deposits are maintained in a recognized pooled investment fund under the care of a third party and the District's share of the pool does not consist of specific, identifiable investment securities owned by the District, no disclosure of the individual deposits and investments or related custodial credit risk classifications is required.

In accordance with applicable state laws, the County Treasurer may invest in derivative securities with the State of California. However, at June 30, 2017, the County Treasurer has represented that the Pooled Investment Fund contained no derivatives or other investments with similar risk profiles.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. Cash balances held in banks are insured up to \$250,000 by the Federal Depository Insurance Corporation (FDIC) and are collateralized by the respective financial institutions. In addition, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2017, none of the District's bank balance was exposed to custodial credit risk because it was insured by the FDIC.

CYPRESS SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2017

NOTE 3 – ACCOUNTS RECEIVABLE

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

	Governmental Funds			Total	Proprietary
	General Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds		Self-Insurance Fund
Federal Government:					
Categorical aid programs	\$ 643,850	\$ -	\$ 123,977	\$ 767,827	\$ -
State Government:					
Lottery	368,818	-	-	368,818	-
Categorical aid programs	11,250	-	7,867	19,117	-
Local:					
Special education	263,189	-	-	263,189	-
Interest	30,426	2,260	1,879	34,565	601
Other local revenue	23,966	-	547	24,513	-
Total	\$ 1,341,499	\$ 2,260	\$ 134,270	\$ 1,478,029	\$ 601

NOTE 4 – INTERFUND ACTIVITIES

A. Balances Due To/From Other Funds

Balances due to/from other funds at June 30, 2017, consisted of the following:

General Fund due to Child Development Fund to clear holding account balances	\$ 33,723
General Fund due to Cafeteria Fund to clear holding account balances and move year-end payroll accruals	17,684
General Fund due to Special Reserve Fund for Capital Outlay Projects to clear holding account balances and move year-end payroll accruals	1,697,650
Child Development Fund due to General Fund to clear holding account balances, move payroll accruals and record indirect cost allocations	22,620
Cafeteria Fund due to General Fund to clear holding account balances, move payroll accruals, and reclassify noon duty salaries	<u>18,487</u>
Total	\$ <u>1,790,164</u>

B. Transfers To/From Other Funds

Transfers to/from other funds during the year ended June 30, 2017, consisted of the following:

General Fund transfer to Child Development Fund to cover start up payroll and benefits cost for this newly established fund	\$ 100,000
General Fund transfer to Special Reserve Fund for Capital Outlay Projects for Community Redevelopment Funds to be used for capital projects, including STEM and Music program expansion	1,400,000
Building Fund transfer to Special Reserve Fund for Capital Outlay Projects for Board-approved transfer to close out minimal balances	<u>1</u>
Total	\$ <u>1,500,001</u>

CYPRESS SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2017

NOTE 5 - FUND BALANCES

At June 30, 2017, fund balances of the District's governmental funds were classified as follows:

	General Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total
Nonspendable:				
Revolving cash	\$ 15,000	\$ -	\$ -	\$ 15,000
Stores inventories	-	-	34,592	34,592
Total Nonspendable	<u>15,000</u>	<u>-</u>	<u>34,592</u>	<u>49,592</u>
Restricted:				
Categorical programs	984,777	-	-	984,777
Food services	-	-	246,819	246,819
Capital projects	-	4,091,054	2,296,334	6,387,388
Debt service	-	-	1,957,658	1,957,658
Total Restricted	<u>984,777</u>	<u>4,091,054</u>	<u>4,500,811</u>	<u>9,576,642</u>
Assigned:				
CSR reserve	505,000	-	-	505,000
LCFF one time reserve	910,000	-	-	910,000
Project STEM reserve	1,325,083	-	-	1,325,083
Accrued liability reserve	320,000	-	-	320,000
RRMA maintenance reserve	1,113,742	-	-	1,113,742
Minimum proportionality reserve	614,535	-	-	614,535
H&W reserve	350,000	-	-	350,000
STRS/PERS increase reserve	450,000	-	-	450,000
Deferred maintenance	1,450,525	-	-	1,450,525
Other assigned	429,353	-	-	429,353
Total Assigned	<u>7,468,238</u>	<u>-</u>	<u>-</u>	<u>7,468,238</u>
Unassigned:				
Reserve for economic uncertainties	1,229,802	-	-	1,229,802
Remaining unassigned balances	2,197,154	-	-	2,197,154
Total Unassigned	<u>3,426,956</u>	<u>-</u>	<u>-</u>	<u>3,426,956</u>
Total	<u>\$ 11,894,971</u>	<u>\$ 4,091,054</u>	<u>\$ 4,535,403</u>	<u>\$ 20,521,428</u>

CYPRESS SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2017

NOTE 6 – CAPITAL ASSETS AND DEPRECIATION

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

	Balance, July 1, 2016	Additions	Retirements	Balance, June 30, 2017
Capital assets not being depreciated:				
Land	\$ 17,890,905	\$ -	\$ -	\$ 17,890,905
Construction in progress	3,818,453	-	3,818,453	-
Total capital assets not being depreciated	<u>21,709,358</u>	<u>-</u>	<u>3,818,453</u>	<u>17,890,905</u>
Capital assets being depreciated:				
Improvement of sites	4,631,096	1,213,798	-	5,844,894
Buildings	66,350,737	6,005,801	-	72,356,538
Equipment	1,235,905	241,185	-	1,477,090
Total capital assets being depreciated	<u>72,217,738</u>	<u>7,460,784</u>	<u>-</u>	<u>79,678,522</u>
Accumulated depreciation for:				
Improvement of sites	(2,492,141)	(307,549)	-	(2,799,690)
Buildings	(17,520,690)	(2,109,199)	-	(19,629,889)
Equipment	(149,379)	(173,605)	-	(322,984)
Total accumulated depreciation	<u>(20,162,210)</u>	<u>(2,590,353)</u>	<u>-</u>	<u>(22,752,563)</u>
Total capital assets being depreciated, net	<u>52,055,528</u>	<u>4,870,431</u>	<u>-</u>	<u>56,925,959</u>
Governmental activity capital assets, net	<u>\$ 73,764,886</u>	<u>\$ 4,870,431</u>	<u>\$ 3,818,453</u>	<u>\$ 74,816,864</u>

NOTE 7 – GENERAL LONG-TERM DEBT

Changes in long-term debt for the year ended June 30, 2017, were as follows:

	Balance, July 1, 2016	Additions	Deductions	Balance, June 30, 2017	Amounts Due Within One Year
General obligation bonds:					
Principal payments	\$ 39,846,589	\$ -	\$ 788,150	\$ 39,058,439	\$ 671,098
Accreted interest	8,156,402	2,124,515	11,850	10,269,067	18,902
Unamortized premium	2,800,250	-	159,947	2,640,303	159,947
Sub-total bonds	<u>50,803,241</u>	<u>2,124,515</u>	<u>959,947</u>	<u>51,967,809</u>	<u>849,947</u>
Certificates of participation:					
Principal payments	7,365,000	-	335,000	7,030,000	455,000
Unamortized discount	(131,685)	-	(11,272)	(120,413)	(11,272)
Sub-total COPs	<u>7,233,315</u>	<u>-</u>	<u>323,728</u>	<u>6,909,587</u>	<u>443,728</u>
Other postemployment benefits	1,094,935	331,823	-	1,426,758	-
Compensated absences	319,999	11,422	-	331,421	-
Total	<u>\$ 59,451,490</u>	<u>\$ 2,467,760</u>	<u>\$ 1,283,675</u>	<u>\$ 60,635,575</u>	<u>\$ 1,293,675</u>

Payments for general obligation bonds are made by the Bond Interest and Redemption Fund. Certificates of participation payments are made by the Debt Service Fund for Blended Component Units. Compensated absences and other postemployment benefits will be paid for by the fund for which the employee worked.

CYPRESS SCHOOL DISTRICT
Notes to Financial Statements
 June 30, 2017

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

A. General Obligation Bonds

On November 4, 2008, District voters approved Measure M, authorizing the District to issue and sell general obligation bonds of up to \$53.6 million. Proceeds from the sale of bonds are being used for the construction, reconstruction, rehabilitation, or replacement of school facilities, including the furnishing and equipping of school facilities.

2015 General Obligation Refunding Bonds

On November 19, 2015, the District issued \$12,555,000 of General Obligation Refunding Bonds. The bonds bear fixed interest rates ranging between 2.0% and 5.0% with annual maturities from August 1, 2016, through August 1, 2029. The net proceeds of \$13,856,929 (after premiums of \$1,472,611 and issuance costs of \$170,682) were used to advance refund a portion of the District's outstanding Election of 2008, Series A General Obligation Bonds.

The net proceeds were used to purchase U.S. government securities. Those securities were deposited into an irrevocable trust with an escrow agent to provide for future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased, and the related liability for the bonds has been removed from the District's liabilities. Amounts paid to the escrow agent in excess of the outstanding debt at the time of payment are recorded as deferred amounts on refunding on the statement of net position and are amortized to interest expense over the life of the liability. Deferred amounts on refunding as of June 30, 2017, of \$1,758,815 remain to be amortized. As of June 30, 2017, the principal balance outstanding on the defeased debt amounted to \$12,100,000.

A summary of outstanding bonds is shown below:

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Balance, July 1, 2016	Additions	Deductions	Balance, June 30, 2017
2008A	5/5/2009	5/1/2034	2.0%-5.0%	\$ 16,999,052	\$ 3,329,052	\$ -	\$ 305,000	\$ 3,024,052
2008B-1	4/21/2011	8/1/2050	5.0%-5.25%	20,139,078	20,002,537	-	53,150	19,949,387
2008B-2	4/21/2011	8/1/2025	5.33%-6.65%	4,535,000	3,960,000	-	155,000	3,805,000
2015 Ref.	12/10/2015	8/1/2029	2.0%-5.0%	12,555,000	12,555,000	-	275,000	12,280,000
Total				\$ 54,228,130	\$ 39,846,589	\$ -	\$ 788,150	\$ 39,058,439
<u>Accreted Interest:</u>								
				2008A	\$ 1,114,633	\$ 218,040	\$ -	\$ 1,332,673
				2008B-1	7,041,769	1,906,475	11,850	8,936,394
				Total	\$ 8,156,402	\$ 2,124,515	\$ 11,850	\$ 10,269,067

CYPRESS SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2017

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

A. General Obligation Bonds

The amounts required to amortize outstanding bonds at June 30, 2017, are as follows:

Fiscal Year	Principal	Interest	Total
2017-18	\$ 671,098	\$ 1,028,852	\$ 1,699,950
2018-19	1,098,178	1,080,663	2,178,841
2019-20	1,239,574	1,078,264	2,317,839
2020-21	1,341,556	1,073,341	2,414,898
2021-22	1,480,295	1,065,793	2,546,088
2022-27	11,128,697	3,465,224	14,593,921
2027-32	8,851,524	10,791,426	19,642,950
2032-37	1,730,732	25,177,280	26,908,013
2037-42	2,607,866	33,044,909	35,652,774
2042-47	2,492,174	44,112,758	46,604,932
2047-51	6,416,745	40,395,602	46,812,348
Total	\$ 39,058,439	\$ 162,314,112	\$ 201,372,552

B. Certificates of Participation

On March 7, 2013, the District issued certificates of participation in the amount of \$7,365,000 through the Cypress School District Public Financing Corporation at interest rates ranging between 2.00% to 3.625%. The certificates were issued to provide the funds necessary for the acquisition, construction, delivery, and installation of certain school facilities, buildings and equipment.

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

Fiscal Year	Principal	Interest	Total
2017-18	\$ 455,000	\$ 223,450	\$ 678,450
2018-19	485,000	213,213	698,213
2019-20	515,000	201,088	716,088
2020-21	545,000	185,638	730,638
2021-22	580,000	169,288	749,288
2022-27	3,590,000	540,550	4,130,550
2027-28	860,000	31,175	891,175
Total	\$ 7,030,000	\$ 1,564,402	\$ 8,594,402

CYPRESS SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 8 – JOINT VENTURES

The Cypress School District participates in joint ventures under joint powers agreements with the North Orange County Self-Funded Workers' Compensation Agency (NOCSFWCA) and the North Orange County Liability and Property Self-Insurance Authority (NOCLPSIA). The relationships between the District and the JPAs are such that the JPAs are not a component unit of the District for financial reporting purposes.

The NOCLPSIA JPA provides property and liability insurance coverage for its members and NOCSFWCA provides its members workers compensation insurance coverage. The JPAs are governed by a board consisting of a representative from each member district. The governing board controls the operations of its JPAs independent of any influence by the member districts beyond their representation on the governing board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionately to its participation in the JPAs.

Condensed audited financial information as of June 30, 2017, for the JPAs is shown below:

	NOCSFWCA	NOCLPSIA
Total Assets	\$ 1,898,003	\$ 3,129,720
Total Liabilities	1,507,711	2,142,180
Total Net Position	<u>\$ 390,292</u>	<u>\$ 987,540</u>
Total Income	\$ 6,052,777	\$ 3,550,360
Total Expenses	(6,053,262)	(3,201,062)
Non-Operating Revenues	<u>12,788</u>	<u>15,421</u>
Net Income (Loss)	<u>\$ 12,303</u>	<u>\$ 364,719</u>

NOTE 9 – 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 participated in the NOCLPSIA public entity risk pool for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

Workers' Compensation

For fiscal year 2017, the District participated in the NOCSFWCA JPA for workers compensation, with excess coverage provided by the Schools Excess Liability Fund (SELF) public entity risk pool.

Claims Liability

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

CYPRESS SCHOOL DISTRICT
Notes to Financial Statements
 June 30, 2017

NOTE 9 – RISK MANAGEMENT (continued)

Unpaid Claims Liabilities

The District establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represent the changes in approximate aggregate liabilities for the District from July 1, 2015 to June 30, 2017:

	<u>Dental & Vision</u>
Liability Balance, June 30, 2015	\$ 18,233
Claims and changes in estimates	2,852,704
Claims payments	<u>(2,870,918)</u>
Liability Balance, June 30, 2016	<u>\$ 19</u>
Claims and changes in estimates	3,297,429
Claims payments	<u>(3,297,444)</u>
Liability Balance, June 30, 2017	<u>\$ 4</u>
Assets available to pay claims at June 30, 2017	<u>\$ 1,430,189</u>

NOTE 10 - COMMITMENTS AND CONTINGENCIES

A. State and Federal Allowances, Awards, and Grants

The District has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursement will not be material.

B. Construction Commitments

As of June 30, 2017, the District had commitments with respect to unfinished capital projects of approximately \$0.2 million to be paid from a combination of State and local funds.

C. Litigation

The District is involved in certain legal matters that arose out of the normal course of business. The District has not accrued a liability for any potential litigation against it because it does not meet the criteria to be considered a liability at June 30, 2017.

NOTE 11 – PENSION PLANS

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

A. General Information about the Pension Plans

Plan Descriptions

The District contributes to the California State Teachers' Retirement System (CalSTRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. Benefit provisions under the Plan are established by State statute and District resolution. CalSTRS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions, and membership information that can be found on the CalSTRS website.

NOTE 11 – PENSION PLANS (continued)

A. General Information about the Pension Plans (continued)

Plan Descriptions (continued)

The District also contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Benefit provisions under the Plan are established by State statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions, and membership information that can be found on the CalPERS website.

Benefits Provided

CalSTRS provides retirement, disability, and death benefits. Retirement benefits are determined as 2% of final compensation for each year of credited service at age 60 for members under *CalSTRS 2% at 60*, or age 62 for members under *CalSTRS 2% at 62*, increasing to a maximum of 2.4% at age 63 for members under *CalSTRS 2% at 60*, or age 65 for members under *CalSTRS 2% at 62*. The normal retirement eligibility requirements are age 60 for members under *CalSTRS 2% at 60*, or age 62 for members under *CalSTRS 2% at 62*, with a minimum of five years of service credited under the Defined Benefit Program, which can include service purchased from teaching in an out-of-state or foreign public school. Employees are eligible for service-related disability benefits after five years of service, unless the member is disabled due to an unlawful act of bodily injury committed by another person while working in CalSTRS covered employment, in which case the minimum is one year. Disability benefits are equal to fifty percent of final compensation regardless of age and service credit. Designated recipients of CalSTRS retired members receive a \$6,163 lump-sum death payment. There is a 2% simple increase each September 1 following the first anniversary of the date on which the monthly benefit began to accrue. The annual 2% increase is applied to all continuing benefits other than Defined Benefit Supplement annuities. However, if the member retires with a Reduced Benefit Election, the increase does not begin to accrue until the member reaches age 60 and is not payable until the member receives the full benefit. This increase is also known as the improvement factor.

CalPERS also provides retirement, disability, and death benefits. Retirement benefits are determined as 1.1% of final compensation for each year of credited service at age 50 for members under *2% at 55*, or 1.0% at age 52 for members under *2% at 62*, increasing to a maximum of 2.5 percent at age 63 for members under *2% at 55*, or age 67 for members under *2% at 62*. To be eligible for service retirement, members must be at least age 50 and have a minimum of five years of CalPERS-credited service. Members joining on or after January 1, 2013 must be at least age 52. Disability retirement has no minimum age requirement and the disability does not have to be job related. However, members must have a minimum of five years of CalPERS service credit.

Pre-retirement death benefits range from a simple return of member contributions plus interest to a monthly allowance equal to half of what the member would have received at retirement paid to a spouse or domestic partner. To be eligible for any type of monthly pre-retirement death benefit, a spouse or domestic partner must have been either married to the member or legally registered before the occurrence of the injury or the onset of the illness that resulted in death, or for at least one year prior to death. Cost-of-living adjustments are provided by law and are based on the Consumer Price Index for all United States cities. Cost-of-living adjustments are paid the second calendar year of the member's retirement on the May 1 check and then every year thereafter. The standard cost-of-living adjustment is a maximum of 2 percent per year.

CYPRESS SCHOOL DISTRICT
Notes to Financial Statements
 June 30, 2017

NOTE 11 – PENSION PLANS (continued)

A. General Information about the Pension Plans (continued)

Contributions

Active CalSTRS plan members under *2% at 60* were required to contribute 10.25% and plan members under *2% at 62* were required to contribute 9.205% of their salary in 2016-17. The required employer contribution rate for fiscal year 2016-17 was 12.58% of annual payroll. The contribution requirements of the plan members are established by State statute. Active CalPERS plan members are required to contribute 7.0% of their salary, and the District is required to contribute an actuarially determined rate. 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 required employer contribution for fiscal year 2016-17 was 13.888%. The contribution requirements of the plan members are established by State statute.

For the fiscal year ended June 30, 2017, the contributions recognized as part of pension expense for each Plan were as follows:

	<u>CalSTRS</u>	<u>CalPERS</u>
Employer contributions	\$ 2,270,362	\$ 689,843
Employee contributions paid by employer	\$ -	\$ -
Employer contributions paid by State	\$ 1,367,069	\$ -

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

As of June 30, 2017, the District reported net pension liabilities for its proportionate shares of the net pension liability of each Plan as follows:

	<u>Proportionate Share of Net Pension Liability</u>
CalSTRS	\$ 27,499,540
CalPERS	\$ 7,742,024
Total Net Pension Liability	<u>\$ 35,241,564</u>

The District's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2016, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015, rolled forward to June 30, 2016, using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability for each Plan as of June 30, 2015 and 2016, was as follows:

	<u>CalSTRS</u>	<u>CalPERS</u>
Proportion - June 30, 2015	0.0340%	0.0390%
Proportion - June 30, 2016	<u>0.0340%</u>	<u>0.0392%</u>
Change - Increase (Decrease)	<u>0.0000%</u>	<u>0.0002%</u>

CYPRESS SCHOOL DISTRICT
Notes to Financial Statements
 June 30, 2017

NOTE 11 – PENSION PLANS (continued)

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

For the year ended June 30, 2017, the District recognized pension expense of \$3,758,510. 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	\$ 2,960,205	\$ -
Differences between actual and expected experience	332,981	(670,820)
Changes in assumptions	-	(232,602)
Adjustment due to differences in proportions	-	(71,477)
Net differences between projected and actual earnings on plan investments	4,152,075	(764,561)
	<u>\$ 7,445,261</u>	<u>\$ (1,739,461)</u>

The total amount of \$2,960,205 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30,	Amount
2018	\$ 538,691
2019	552,507
2020	928,383
2021	217,701
2022	(95,831)
Thereafter	-

Actuarial Assumptions – The total pension liabilities in the June 30, 2015, actuarial valuations were determined using the following actuarial assumptions:

	CalSTRS	CalPERS
Valuation Date	June 30, 2015	June 30, 2015
Measurement Date	June 30, 2016	June 30, 2016
Actuarial Cost Method	Entry age normal	Entry age normal
Actuarial Assumptions:		
Discount Rate	7.60%	7.65%
Inflation	3.00%	2.75%
Wage Growth	3.75%	Varies
Post-retirement Benefit Increase	2.00%	2.00%
Investment Rate of Return	7.60%	7.65%

NOTE 11 – PENSION PLANS (continued)

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

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. RP2000 series tables are an industry standard set of mortality rates published by the Society of Actuaries. See CalSTRS July 1, 2006 - June 30, 2010 Experience Analysis for more information. The underlying mortality assumptions and all other actuarial assumptions used in the CalPERS June 30, 2015, valuation were based on the results of an actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can be found on the CalPERS website.

Discount Rate – for CalSTRS

The discount rate used to measure the total pension liability was 7.60%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates in accordance with the rate increase per Assembly Bill 1469. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.60%) and assuming that contributions, benefit payments, and administrative expense occur midyear. Based on those 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 the total pension liability.

Discount Rate – for CalPERS

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

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

In determining the long-term expected rate of return, both short-term and long-term market return expectations as well as the expected pension fund cash flows were taken into account. Using historical returns of all of the funds' asset classes, expected compound (geometric) returns were calculated over the short term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The long-term expected real rates of return by asset class can be found in CalPERS' Comprehensive Annual Financial Report for the fiscal year ended June 30, 2016.

CYPRESS SCHOOL DISTRICT
Notes to Financial Statements
 June 30, 2017

NOTE 11 – PENSION PLANS (continued)

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

Discount Rate – for CalPERS (continued)

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

Asset Class	Target Allocation		Long-Term Expected Rate of Return	
	CalSTRS	CalPERS	CalSTRS	CalPERS
Global Equity	47%	51%	6.30%	5.71%
Global Debt Securities	N/A	20%	N/A	2.43%
Inflation Sensitive	4%	6%	3.80%	3.36%
Private Equity	13%	10%	9.30%	6.95%
Absolute Return/Risk Mitigating Strategies	9%	N/A	2.90%	N/A
Real Estate	13%	10%	5.20%	5.13%
Infrastructure and Forestland	N/A	2%	N/A	5.09%
Fixed Income	12%	N/A	0.30%	N/A
Cash/Liquidity	2%	1%	-1.00%	-1.05%
	<u>100%</u>	<u>100%</u>		

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

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

	CalSTRS	CalPERS
1% Decrease	6.60%	6.65%
Net Pension Liability	\$ 39,578,040	\$ 11,551,143
Current Discount Rate	7.60%	7.65%
Net Pension Liability	\$ 27,499,540	\$ 7,742,024
1% Increase	8.60%	8.65%
Net Pension Liability	\$ 17,467,840	\$ 4,570,183

Pension Plan Fiduciary Net Position

Detailed information about each pension plan’s fiduciary net position is available in the separately issued CalSTRS and CalPERS financial reports.

C. Payable to the Pension Plans

At June 30, 2017, the District reported a payable of \$4,145 and \$30,692 for the outstanding amount of contributions to the CalSTRS and CalPERS pension plans, respectively.

CYPRESS SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2017

NOTE 12 – CYPRESS EDUCATION FOUNDATION

The District leases facilities to the Cypress Education Foundation for use as a child care center. The District does not receive lease or rental revenue from the Foundation, but it does charge the Foundation for a prorated share of utilities and maintenance costs. In addition, the Foundation makes regular grants to the District of \$100,000 every 3 months. The Foundation grants are restricted as to use and may only be used for purposes specified in the Foundation documents.

NOTE 13 – OTHER POSTEMPLOYMENT BENEFITS

Cypress School District administers a single-employer defined benefit other postemployment benefit (OPEB) plan that provides medical, dental and vision insurance benefits to eligible retirees and their spouses. The District implemented Governmental Accounting Standards Board Statement #45, *Accounting and Financial Reporting by Employers for Postemployment Benefit Plans Other Than Pension Plans*, in 2008-09.

Plan Descriptions and Contribution Information

Membership in the plan consisted of the following:

Retirees and beneficiaries receiving benefits*	25
Active plan members*	<u>260</u>
Total	<u><u>285</u></u>

**As of October 1, 2016, actuarial valuation*

Following is a description of the current retiree benefit plan: Non-represented employees receive benefits according to the appropriate classification.

	<u><i>Certificated Management</i></u>	<u><i>Certificated</i></u>	<u><i>Classified</i></u>	<u><i>Classified Management</i></u>
Benefit types provided	Medical, dental, & vision	Medical, dental, & vision	Medical, dental, & vision	Medical, dental, & vision
Duration of benefits	To Medicare age	To Medicare age	To Medicare age	To Medicare age
Required services	10 years	10 years	10 years	10 years
Minimum age	55	55	55	55
Dependent coverage	Yes	Yes	No	Yes
District contribution %	100%	100%	100%	100%
District cap	Same as active	Same as active	Same as active	Same as active

The District’s funding policy is based on the projected pay-as-you-go financing requirements, with additional amounts to prefund benefits as determined annually by the governing board. For fiscal year 2016-17, the District contributed \$373,750.

CYPRESS SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2017

NOTE 13 – OTHER POSTEMPLOYMENT BENEFITS (continued)

Annual OPEB Cost and Net OPEB Obligation

The District’s annual OPEB cost is calculated based on the Annual Required Contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 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 liabilities (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:

Annual required contribution (ARC)	\$ 715,831
Interest on net OPEB obligation	49,272
Adjustment to ARC	<u>(59,530)</u>
Annual OPEB cost	705,573
Contributions made	<u>(373,750)</u>
Increase in net OPEB liability	331,823
Net OPEB liability - July 1, 2016	<u>1,094,935</u>
Net OPEB liability - June 30, 2017	<u><u>\$ 1,426,758</u></u>

The District’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2016-17 and the preceding two fiscal years are as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
2015	\$ 616,889	56%	\$ 852,883
2016	\$ 615,802	61%	\$ 1,094,935
2017	\$ 705,573	53%	\$ 1,426,758

Funded Status and Funding Progress – OPEB Plans

As of October 1, 2016, the most recent actuarial valuation date, the District did not have a funded plan. The actuarial accrued liability (AAL) for benefits was \$5.5 million and the unfunded actuarial accrued liability (UAAL) was \$5.5 million.

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, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedules of funding progress present multiyear trend information about whether the actuarial values of plan assets are 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 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 designated 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.

CYPRESS SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2017

NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS (continued)

Actuarial Methods and Assumptions (continued)

Additional information as of the latest actuarial valuation follows:

Valuation Date	October 1, 2016
Actuarial Cost Method	Entry age normal
Amortization Method	Level percentage of payroll method
Remaining Amortization Period	23 years
Asset Valuation	N/A
Actuarial Assumptions:	
Investment rate of return	4.5%
Inflation	2.75%
Healthcare cost trend rate	4.0%

NOTE 14 - ADJUSTMENT FOR RESTATEMENT

During the year, the District made a \$50,000 adjustment to adjust revolving cash balances which affected both the beginning net position on the Government-wide Statement of Activities and the beginning net position on the Statement of Revenue, Expense, and Changes in Net Position for Proprietary Funds.

Required Supplementary Information

(This page intentionally left blank)

CYPRESS SCHOOL DISTRICT

*Budgetary Comparison Schedule – General Fund
For the Fiscal Year Ended June 30, 2017*

	Budgeted Amounts		Actual* (Budgetary Basis)	Variance with Final Budget - Pos (Neg)
	Original	Final		
Revenues				
LCFF Sources	\$ 30,549,415	\$ 30,620,452	\$ 30,676,648	\$ 56,196
Federal Sources	1,331,421	1,736,204	1,437,370	(298,834)
Other State Sources	4,011,236	5,455,613	6,068,971	613,358
Other Local Sources	2,736,548	2,931,545	2,790,777	(140,768)
Total Revenues	38,628,620	40,743,814	40,973,766	229,952
Expenditures				
Current:				
Certificated Salaries	18,347,075	18,431,734	18,036,277	395,457
Classified Salaries	5,684,571	6,006,704	6,006,079	625
Employee Benefits	7,311,666	8,495,553	8,700,427	(204,874)
Books and Supplies	2,029,994	2,585,724	1,116,761	1,468,963
Services and Other Operating Expenditures	4,103,505	4,684,507	3,926,334	758,173
Capital Outlay	200,794	745,024	998,174	(253,150)
Intergovernmental Transfers	909,113	759,882	709,347	50,535
Total Expenditures	38,586,718	41,709,128	39,493,399	2,215,729
Excess (Deficiency) of Revenues Over (Under) Expenditures	41,902	(965,314)	1,480,367	2,445,681
Other Financing Sources and Uses				
Interfund Transfers Out	(1,192,601)	(1,292,601)	(1,500,000)	(207,399)
Total Other Financing Sources and Uses	(1,192,601)	(1,292,601)	(1,500,000)	(207,399)
Net Changes in Fund Balances	(1,150,699)	(2,257,915)	(19,633)	2,238,282
Fund Balances, July 1, 2016	8,035,746	10,464,079	10,464,079	-
Fund Balances, June 30, 2017	\$ 6,885,047	\$ 8,206,164	\$ 10,444,446	\$ 2,238,282

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

CYPRESS SCHOOL DISTRICT
Schedule of Funding Progress
For the Fiscal Year Ended June 30, 2017

Actuarial Valuation Date	Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
10/1/2012	\$ -	\$ 4,291,369	\$ 4,291,369	0%	\$ 19,571,952	21.9%
10/1/2014	\$ -	\$ 4,839,053	\$ 4,839,053	0%	\$ 18,881,469	25.6%
10/1/2016	\$ -	\$ 5,518,777	\$ 5,518,777	0%	\$ 21,408,736	25.8%

CYPRESS SCHOOL DISTRICT

*Schedule of Proportionate Share of the Net Pension Liability
For the Fiscal Year Ended June 30, 2017*

	Last Ten Fiscal Years*		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
CalSTRS			
District's proportion of the net pension liability DD	0.0340%	0.0340%	0.0340%
District's proportionate share of the net pension liability	\$ 27,499,540	\$ 22,890,160	\$ 19,868,580
State's proportionate share of the net pension liability associated with the District	15,657,302	12,106,339	11,997,627
Totals	<u>\$ 43,156,842</u>	<u>\$ 34,996,499</u>	<u>\$ 31,866,207</u>
District's covered-employee payroll	<u>\$ 17,059,469</u>	<u>\$ 15,888,615</u>	<u>\$ 15,003,115</u>
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	<u>161.20%</u>	<u>144.07%</u>	<u>132.43%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>70%</u>	<u>74%</u>	<u>77%</u>
CalPERS			
District's proportion of the net pension liability	0.0392%	0.0390%	0.0394%
District's proportionate share of the net pension liability	\$ 7,742,024	\$ 5,748,638	\$ 4,472,859
District's covered-employee payroll	<u>\$ 4,716,207</u>	<u>\$ 4,325,096</u>	<u>\$ 4,293,262</u>
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	<u>164.16%</u>	<u>132.91%</u>	<u>104.18%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>74%</u>	<u>79%</u>	<u>83%</u>

* This schedule is required to show information for ten years; however, until a full ten year trend is compiled, information is presented for those years for which information is available.

CYPRESS SCHOOL DISTRICT
Schedule of Pension Contributions
For the Fiscal Year Ended June 30, 2017

Last Ten Fiscal Years*

	<u>2017</u>	<u>2016</u>	<u>2015</u>
CalSTRS			
Contractually required contribution	\$ 2,270,362	\$ 1,830,481	\$ 1,410,909
Contributions in relation to the contractually required contribution	<u>2,270,362</u>	<u>1,830,481</u>	<u>1,410,909</u>
Contribution deficiency (excess):	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	<u>\$ 18,047,393</u>	<u>\$ 17,059,469</u>	<u>\$ 15,888,615</u>
Contributions as a percentage of covered-employee payroll	<u>12.58%</u>	<u>10.73%</u>	<u>8.88%</u>
CalPERS			
Contractually required contribution	\$ 689,843	\$ 558,729	\$ 509,017
Contributions in relation to the contractually required contribution	<u>689,843</u>	<u>558,729</u>	<u>509,017</u>
Contribution deficiency (excess):	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	<u>\$ 4,967,188</u>	<u>\$ 4,716,207</u>	<u>\$ 4,325,096</u>
Contributions as a percentage of covered-employee payroll	<u>13.888%</u>	<u>11.847%</u>	<u>11.769%</u>

* This schedule is required to show information for ten years; however, until a full ten year trend is compiled, information is presented for those years for which information is available.

CYPRESS SCHOOL DISTRICT

Notes to the Required Supplementary Information For the Fiscal Year Ended June 30, 2017

NOTE 1 – PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

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

Schedule of Funding Progress

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

Schedule of Proportionate Share of the Net Pension Liability

This schedule is required by GASB Statement No. 68 and is required for all employers in a cost-sharing pension plan. The schedule reports the following information:

- The proportion (percentage) of the collective net pension liability (similar to the note disclosure)
- The proportionate share (amount) of the collective net pension liability
- The employer's covered-employee payroll
- The proportionate share (amount) of the collective net pension liability as a percentage of the employer's covered-employee payroll
- The pension plan's fiduciary net position as a percentage of the total pension liability

Schedule of Pension Contributions

This schedule is required by GASB Statement No. 68 and is required for all employers in a cost-sharing pension plan. The schedule reports the following information:

- If an employer's contributions to the plan are actuarially determined or based on statutory or contractual requirements: the employer's actuarially determined contribution to the pension plan (or, if applicable, its statutorily or contractually required contribution), the employer's actual contributions, the difference between the actual and actuarially determined contributions (or statutorily or contractually required), and a ratio of the actual contributions divided by covered-employee payroll.

NOTE 2 – SUMMARY OF CHANGES OF BENEFITS OR ASSUMPTIONS

Benefit Changes

There were no changes to benefit terms that applied to all members of the Schools Pool.

Changes of Assumptions

There were no changes of assumptions.

CYPRESS SCHOOL DISTRICT

*Notes to the Required Supplementary Information
For the Fiscal Year Ended June 30, 2017*

NOTE 3 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS

At June 30, 2017, the District incurred the following excess of expenditures over appropriations in individual major funds presented in the Budgetary Comparison Schedule:

	General Fund
Employee Benefits	\$ 204,874
Capital Outlay	253,150
Interfund Transfers Out	207,399

Supplementary Information

(This page intentionally left blank)

CYPRESS SCHOOL DISTRICT

Local Educational Agency Organization Structure

June 30, 2017

The Cypress School District was established as a school district in 1895. The District encompasses the city of Cypress as well as portions of Buena Park and La Palma in the northwestern portion of Orange County. There were no changes to the District's boundaries during the year. The District operated six elementary schools (kindergarten through grade 6) during the year.

GOVERNING BOARD		
Member	Office	Term Expires
Mr. Brian Nakamura	President	November, 2020
Dr. Lydia Sondhi	Vice-President	November, 2018
Ms. Sandra Lee	Clerk	November, 2018
Ms. Candice Kern	Member	November, 2020
Ms. Donna McDougall	Member	November, 2018

DISTRICT ADMINISTRATORS

Anne Silavs,
Superintendent

Tim McLellan, Ed.D.,
Assistant Superintendent of Business Services

Tracy Mouren-Laurens,
Administrative Director, Human Resources / Induction

CYPRESS SCHOOL DISTRICT
Schedule of Average Daily Attendance
For the Fiscal Year Ended June 30, 2017

	Second Period Report	Annual Report
	Certificate No. (08E610C8)	Certificate No. (2121EC10)
Regular & Extended Year ADA:		
Transitional Kindergarten through Third	2,150.96	2,152.22
Fourth through Sixth	1,696.30	1,693.33
Total Regular & Extended Year ADA	3,847.26	3,845.55
Special Education, Nonpublic, Nonsectarian Schools:		
Transitional Kindergarten through Third	3.76	3.99
Fourth through Sixth	3.13	3.28
Total Special Education, Nonpublic, Nonsectarian Schools	6.89	7.27
Total ADA	3,854.15	3,852.82

CYPRESS SCHOOL DISTRICT
Schedule of Instructional Time
For the Fiscal Year Ended June 30, 2017

<u>Grade Level</u>	<u>Minutes Requirement</u>	<u>2016-17 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Status</u>
Kindergarten	36,000	42,245	180	Complied
Grade 1	50,400	52,950	180	Complied
Grade 2	50,400	52,950	180	Complied
Grade 3	50,400	52,950	180	Complied
Grade 4	54,000	55,795	180	Complied
Grade 5	54,000	55,795	180	Complied
Grade 6	54,000	55,795	180	Complied

CYPRESS SCHOOL DISTRICT
Schedule of Financial Trends and Analysis
For the Fiscal Year Ended June 30, 2017

General Fund	(Budget) 2018 ³	2017 ²	2016	2015
Revenues and other financing sources	\$ 40,711,866	\$ 40,973,766	\$ 40,060,021	\$ 33,878,329
Expenditures	40,879,477	39,493,399	36,528,197	31,794,764
Other uses and transfers out	1,192,601	1,500,000	1,692,601	2,098,085
Total outgo	42,072,078	40,993,399	38,220,798	33,892,849
Change in fund balance (deficit)	(1,360,212)	(19,633)	1,839,223	(14,520)
Ending fund balance	\$ 9,084,234	\$ 10,444,446	\$ 10,464,079	\$ 8,624,855
Available reserves ¹	\$ 3,336,677	\$ 3,426,956	\$ 3,282,732	\$ 8,151,904
Available reserves as a percentage of total outgo	7.9%	8.4%	8.6%	24.1%
Total long-term debt	\$ 96,834,114	\$ 95,877,139	\$ 88,090,288	\$ 80,672,786
Average daily attendance at P-2	3,828	3,854	3,838	3,876

The General Fund balance has increased by \$1,819,591 over the past two years. The fiscal year 2017-18 adopted budget projects a decrease of \$1,360,212. For a district of this size, the state recommends available reserves of at least 3% of total general fund expenditures, transfers out, and other uses (total outgo).

The District has incurred an operating deficit in two of the past three years, and anticipates incurring an operating deficit during the 2017-18 year. Long-term debt has increased by \$15,204,353 over the past two years.

Average daily attendance has decreased by 22 over the past two years. ADA is expected to decrease by 26 in fiscal year 2017-18.

¹ Available reserves consist of all unassigned fund balances in the General Fund.

² The actual amounts reported in this schedule are for the General Fund only, and do not agree with the amounts reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances because the amounts on that schedule include the financial activity of the Deferred Maintenance Fund, in accordance with the fund type definitions promulgated by GASB Statement No. 54.

³ Revised Final Budget September, 2017.

CYPRESS SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Cluster Expenditures	Federal Expenditures
Federal Programs:				
U.S. Department of Agriculture:				
Passed through California Dept. of Education (CDE):				
Child Nutrition Cluster:				
School Breakfast Program - Especially Needy	10.553	13526	\$ 97,296	
National School Lunch Program	10.555	13523	737,144	
USDA Donated Foods	10.555	N/A	132,360	
Total Child Nutrition Cluster				\$ 966,800
Total U.S. Department of Agriculture				966,800
U.S. Department of Education:				
Passed through California Dept. of Education (CDE):				
No Child Left Behind (NCLB):				
Title I, Part A, Basic Grants	84.010	14329		318,209
Title II, Part A, Supporting Effective Instruction	84.367	14341		130,116
Title III English Language Acquisition:				
Title III, Immigrant Education Program	84.365	15146	2,664	
Title III, Limited English Proficient (LEP) Student Program	84.365	14346	27,963	
Total Title III Cluster				30,627
Individuals with Disabilities Education Act (IDEA):				
Passed through Greater Anaheim SELPA:				
Special Education Cluster:				
Basic Local Assistance Entitlement, Part B	84.027	13379	582,922	
Preschool Grants, Part B, Section 619	84.173	13430	42,985	
Preschool Local Entitlement, Part B, Section 611	84.027A	13682	134,153	
Mental Health Allocation Plan, Part B, Section 611	84.027	14468	44,987	
Total Special Education Cluster				805,047
Total U.S. Department of Education				1,283,999
U.S. Department of Health & Human Services:				
Passed through California Dept. of Education:				
Medi-Cal Billing Option	93.778	10013		133,340
Total U.S. Department of Health & Human Services				133,340
Total Expenditures of Federal Awards				\$ 2,384,139

Of the Federal expenditures presented in the schedule, the District provided no Federal awards to subrecipients.

CYPRESS SCHOOL DISTRICT

Note to the Supplementary Information

June 30, 2017

NOTE 1 – PURPOSE OF SCHEDULES

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 participated in the Incentives for Longer Instructional Day and Longer Instructional Year. The District has not met 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.

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.

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 Expenditures of Federal Awards

The schedule of expenditures of Federal awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements. The District did not elect to use the ten percent de minimis indirect cost rate.

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

	<u>CFDA Number</u>	<u>Amount</u>
Total Federal Revenues from the Statement of Revenues, Expenditures, and Changes in Fund Balances		\$ 2,599,713
Differences between Federal Revenues and Expenditures:		
Qualified School Construction Bonds - Interest Subsidy	Not applicable	(195,543)
Medi-Cal Billing Option	93.778	22,781
Medi-Cal Administrative Activities	93.778	<u>(42,812)</u>
Total Schedule of Expenditures of Federal Awards		<u>\$ 2,384,139</u>

(This page intentionally left blank)

Other Independent Auditors' Reports

(This page intentionally left blank)



INDEPENDENT AUDITORS' 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

Board of Trustees
Cypress School District
Cypress, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Cypress School District as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Cypress School District's basic financial statements, and have issued our report thereon dated November 8, 2017.

Internal Control Over Financial Reporting

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

Handwritten signature in black ink that reads "Nigro & Nigro, PC". The signature is written in a cursive, slightly slanted style.

Murrieta, California
November 8, 2017



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Board of Trustees
Cypress School District
Cypress, California

Report on State Compliance

We have audited Cypress School District's compliance with the types of compliance requirements described in the 2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting that could have a direct and material effect on each of the Cypress School District's state government programs as noted on the following page for the fiscal year ended June 30, 2017.

Management's Responsibility

Management is responsible for compliance with state laws, regulations, and the terms and conditions of its State programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Cypress School District's state programs based on our audit of the types of compliance requirements referred to on the following page. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the 2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to on the following page that could have a direct and material effect on a state program occurred. An audit includes examining, on a test basis, evidence about Cypress School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

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

Table with 2 columns: Description, Procedures Performed. Rows include Attendance, Teacher Certification and Misassignments, Kindergarten Continuance, Independent Study, Continuation Education, Instructional Time, Instructional Materials, and Ratio of Administrative Employees to Teachers.

Description	Procedures Performed
Classroom Teacher Salaries	Yes
Early Retirement Incentive	Not Applicable
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	Not Applicable
Middle or Early College High Schools	Not Applicable
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
Mental Health Expenditures	Yes
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After School Education and Safety Program	Yes
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study - Course Based	Not Applicable
Immunizations	Yes
Charter Schools:	
Attendance	Not Applicable
Mode of Instruction	Not Applicable
Nonclassroom-Based Instruction/Independent Study	Not Applicable
Determination of Funding for Nonclassroom-Based Instruction	Not Applicable
Annual Instructional Minutes – Classroom Based	Not Applicable
Charter School Facility Grant Program	Not Applicable

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

Unmodified Opinion on Compliance with State Programs

In our opinion, Cypress School District complied, in all material respects, with the types of compliance requirements referred to above for the year ended June 30, 2017.

Nigro & Nigro, PC

Murrieta, California
November 8, 2017



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

Board of Trustees
Cypress School District
Cypress, California

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

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

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

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

Nigro & Nigro, PC

Murrieta, California
November 8, 2017

Findings and Questioned Costs

(This page intentionally left blank)

CYPRESS SCHOOL DISTRICT

*Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2017*

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditor's report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(s) identified not considered to be material weaknesses?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(s) identified not considered to be material weaknesses?	<u>None reported</u>
Type of auditor's report issued on compliance for major programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with Unifrom Guidance, Section 200.516	<u>No</u>
Identification of major programs:	
<u>CFDA Numbers</u> <u>Name of Federal Program or Cluster</u>	
<u>84.027, 84.173, 84.027A</u> <u>Special Education Cluster</u>	
Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 750,000</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

State Awards

Type of auditor's report issued on compliance for state programs:	<u>Unmodified</u>
---	-------------------

CYPRESS SCHOOL DISTRICT

*Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2017*

SECTION II - FINANCIAL STATEMENT FINDINGS

This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*. Pursuant to Assembly Bill (AB) 3627, all audit findings must be identified as one or more of the following categories:

<u>Five Digit Code</u>	<u>AB 3627 Finding Types</u>
10000	Attendance
20000	Inventory of Equipment
30000	Internal Control
40000	State Compliance
42000	Charter School Facilities Programs
50000	Federal Compliance
60000	Miscellaneous
61000	Classroom Teacher Salaries
62000	Local Control Accountability Plan
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

There were no financial statement findings in 2016-17.

CYPRESS SCHOOL DISTRICT

*Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2017*

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

This section identifies the audit findings required to be reported by the Uniform Guidance, Section 200.516 (e.g., significant deficiencies, material weaknesses, and instances of noncompliance, including questioned costs).

There were no federal award findings or questioned costs in 2016-17.

CYPRESS SCHOOL DISTRICT

*Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2017*

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

This section identifies the audit findings pertaining to noncompliance with state program rules and regulations.

There were no state award findings or questioned costs in 2016-17.

CYPRESS SCHOOL DISTRICT
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2017

There were no findings or questioned costs in 2015-16.