

**CYPRESS SCHOOL DISTRICT**  
**AUDIT REPORT**  
**For the Fiscal Year Ended**  
**June 30, 2018**



**CYPRESS SCHOOL DISTRICT**  
*For the Fiscal Year Ended June 30, 2018*  
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***Financial Section***

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## 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, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### 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 *2017-18 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, 2018, 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.

### **Change in Accounting Principle**

As discussed in Note 1.I. to the basic financial statements, the District has changed its method for accounting and reporting for postemployment benefits other than pensions during fiscal year 2017-18 due to the adoption of Governmental Accounting Standards Board Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions". The adoption of this standard required retrospective application resulting in a \$6,701,749 reduction of previously reported net position at July 1, 2017. Our opinion is not modified with respect to this matter.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of proportionate share of the net pension liability, schedule of pension contributions, schedule of changes in the District's total OPEB liability and related ratios, and the notes to the required supplementary information 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 61 to 64 and the schedule of expenditures of federal awards on page 65 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 60 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 26, 2018, 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 26, 2018

# CYPRESS SCHOOL DISTRICT

## Management's Discussion and Analysis (Unaudited) For the Fiscal Year Ended June 30, 2018

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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, 2018. Please read it in conjunction with the District's financial statements, which immediately follow this section.

### FINANCIAL HIGHLIGHTS

- The District's overall financial status improved from last year, as the net position increased to \$2.0 million. The increase is primarily due to an increase in capital grants and contributions.
- Total governmental revenues were \$52.1 million, about \$0.7 million more than expenses.
- The total cost of basic programs was \$51.4 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 \$38.8 million.
- Second period average daily attendance (grades K-6) decreased by 8, or 0.2%.

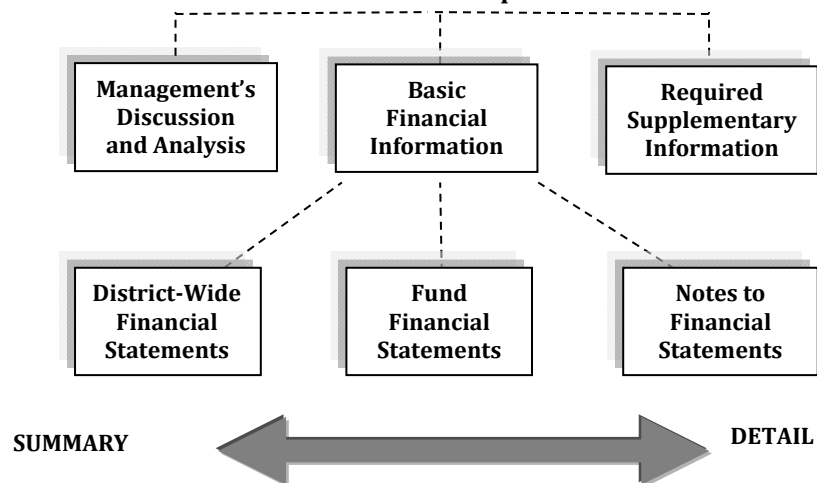
### OVERVIEW OF THE FINANCIAL STATEMENTS

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, 2018*

**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**

<b>Type of Statements</b>	<b>District-Wide</b>	<b>Governmental Funds</b>	<b>Proprietary Funds</b>	<b>Fiduciary Fund</b>
<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"> <li>• Statement of Net Position</li> <li>• Statement of Activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance Sheet</li> <li>• Statement of Revenues, Expenditures &amp; Changes in Fund Balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of Net Position</li> <li>• Statement of Revenues, Expenses &amp; Changes in Fund Balance</li> <li>• Statement of Cash Flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of Fiduciary Net Position</li> </ul>
<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, 2018*

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### 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, 2018

### 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 higher on June 30, 2018, than it was the year before – increasing 53.8% to \$2.0 million (See Table A-1).

**Table A-1: Statement of Net Position**

	<b>Governmental Activities</b>		<b>Variance Increase (Decrease)</b>
	<b>2018</b>	<b>2017*</b>	
<b>Assets</b>			
Current assets	\$ 31,905,203	\$ 24,766,451	\$ 7,138,752
Capital assets	72,196,526	74,816,864	(2,620,338)
<b>Total assets</b>	<u>104,101,729</u>	<u>99,583,315</u>	<u>4,518,414</u>
<b>Deferred outflows of resources</b>	<u>12,940,609</u>	<u>9,204,076</u>	<u>3,736,533</u>
<b>Liabilities</b>			
Current liabilities	4,017,486	3,182,450	835,036
Long-term liabilities	68,798,258	67,337,324	1,460,934
Net pension liability	40,480,987	35,241,564	5,239,423
<b>Total liabilities</b>	<u>113,296,731</u>	<u>105,761,338</u>	<u>7,535,393</u>
<b>Deferred inflows of resources</b>	<u>1,767,121</u>	<u>1,739,461</u>	<u>27,660</u>
<b>Net position</b>			
Net investment in capital assets	24,862,978	26,208,543	(1,345,565)
Restricted	16,473,276	9,611,234	6,862,042
Unrestricted	(39,357,768)	(34,533,185)	(4,824,583)
<b>Total net position</b>	<u>\$ 1,978,486</u>	<u>\$ 1,286,592</u>	<u>\$ 691,894</u>

\* As restated

**Changes in net position, governmental activities.** The District's total revenues increased 11.7% to \$52.1 million (See Table A-2). The increase is due primarily to an increase in revenue from capital grants and contributions.

The total cost of all programs and services increased 8.1% to \$51.4 million. The District's expenses are predominantly related to educating and caring for students, 66.5%. The purely administrative activities of the District accounted for just 7.4% of total costs. A significant contributor to the increase in costs was increases in expenditures for textbooks and services for students.

**CYPRESS SCHOOL DISTRICT**

*Management's Discussion and Analysis (Unaudited)  
For the Fiscal Year Ended June 30, 2018*

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (continued)**

**Table A-2: Statement of Activities**

	<b>Governmental Activities</b>		<b>Variance Increase (Decrease)</b>
	<b>2018</b>	<b>2017</b>	
<b>Revenues</b>			
Program Revenues:			
Charges for services	\$ 1,028,411	\$ 1,258,617	\$ (230,206)
Operating grants and contributions	6,340,433	7,394,500	(1,054,067)
Capital grants and contributions	5,183,569	4	5,183,565
General Revenues:			
Property taxes	23,647,385	20,560,657	3,086,728
Federal and state aid not restricted	12,694,295	14,548,473	(1,854,178)
Other general revenues	3,171,699	2,833,217	338,482
<b>Total Revenues</b>	<b>52,065,792</b>	<b>46,595,468</b>	<b>5,470,324</b>
<b>Expenses</b>			
Instruction-related	30,764,510	29,807,787	956,723
Pupil services	3,397,720	3,335,236	62,484
Administration	3,821,012	2,904,881	916,131
Plant services	4,689,818	4,172,559	517,259
All other activities	8,700,838	7,307,857	1,392,981
<b>Total Expenses</b>	<b>51,373,898</b>	<b>47,528,320</b>	<b>3,845,578</b>
Increase (decrease) in net position	<b>\$ 691,894</b>	<b>\$ (932,852)</b>	<b>\$ 1,624,746</b>
<b>Total net position</b>	<b>\$ 1,978,486</b>	<b>\$ 1,286,592</b>	

**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 \$27.4 million, which is above last year's ending fund balance of \$20.5 million. The primary cause of the increased fund balance is the receipt of more than \$5 million of state school facilities grants funds.

**Table A-3: The District's Fund Balances**

<b>Fund</b>	<b>Fund Balances</b>				
	July 1, 2017	Revenues	Expenditures	Other Sources and (Uses)	June 30, 2018
General Fund	\$ 10,444,446	\$ 41,713,361	\$ 40,896,081	\$ (1,481,313)	\$ 9,780,413
Child Development Fund	-	385,619	385,619	-	-
Cafeteria Fund	281,411	1,743,688	1,624,686	-	400,413
Deferred Maintenance Fund	1,450,525	18,825	903	-	1,468,447
Capital Facilities Fund	2,295,808	138,730	4,922	-	2,429,616
County School Facilities Fund	518	5,183,569	139	(5,180,048)	3,900
Special Reserve Fund (Capital Outlay)	4,091,054	1,018,924	939,505	6,661,361	10,831,834
Capital Outlay Fund for Blended Component Units	8	-	-	-	8
Bond Interest and Redemption Fund	1,220,145	2,247,990	1,699,950	-	1,768,185
Debt Service Fund for Blended Component Units	737,513	792,205	790,146	-	739,572
	<b>\$ 20,521,428</b>	<b>\$ 53,242,911</b>	<b>\$ 46,341,951</b>	<b>\$ -</b>	<b>\$ 27,422,388</b>

## CYPRESS SCHOOL DISTRICT

Management's Discussion and Analysis (Unaudited)  
For the Fiscal Year Ended June 30, 2018

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### 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 \$0.7 million primarily to reflect federal and state budget actions.
- Salaries and benefits costs – increased \$0.2 million due to a negotiated pay increase.
- Other non-capital costs – increased \$1.1 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 \$0.9 million, the actual results for the year show that revenues exceeded expenditures by roughly \$0.8 million. Actual revenues were \$0.3 million more than anticipated, and expenditures were \$1.4 million less than budgeted. That amount consists primarily of restricted categorical program dollars that were not spent as of June 30, 2018, that will be carried over into the 2018-19 budget.

### CAPITAL ASSET AND DEBT ADMINISTRATION

#### Capital Assets

By the end of 2017-18 the District had invested \$0.5 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 \$3.1 million.

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

	Governmental Activities		Variance Increase (Decrease)
	2018	2017	
Land	\$ 17,890,905	\$ 17,890,905	\$ -
Improvement of sites	2,913,252	3,045,204	(131,952)
Buildings	50,050,466	52,726,649	(2,676,183)
Equipment	1,255,011	1,154,106	100,905
Construction in progress	86,892	-	86,892
Total	<u>\$ 72,196,526</u>	<u>\$ 74,816,864</u>	<u>\$ (2,620,338)</u>

#### Long-Term Debt

At year-end the District had approximately \$68.8 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, 2018*

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### CAPITAL ASSET AND DEBT ADMINISTRATION (continued)

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

	Governmental Activities		Variance
	2018	2017*	Increase (Decrease)
General obligation bonds	\$ 53,368,512	\$ 51,967,809	\$ 1,400,703
Certificates of participation	6,465,859	6,909,587	(443,728)
Compensated absences	295,090	331,421	(36,331)
Other postemployment benefits	8,668,797	8,128,507	540,290
Total	<u>\$ 68,798,258</u>	<u>\$ 67,337,324</u>	<u>\$ 1,460,934</u>

\* As restated

### FACTORS BEARING ON THE DISTRICT'S FUTURE

#### The 2018-19 State Budget

##### *Final Budget Package Includes \$15.9 Billion in Total Reserves*

The Legislature passed the final budget package on June 14, 2018. Total reserves in the final budget package are lower than the proposed level in the May Revision, but roughly the same as the level proposed by the Governor in January. The budget package also reflects various choices that shifted spending priorities compared to the Governor's proposal. In particular, the final budget package reduces payments for deferred maintenance by \$700 million—relative to the Governor's proposal—freeing up a like amount of funding. Correspondingly, the final budget package reflects higher General Fund spending for homeless grants and the universities, among others. The Governor signed the *2018-19 Budget Act* and 26 other budget related bills on June 27 and June 28, 2018.

##### *Overall Spending*

The budget assumed total state spending of \$197.2 billion (excluding federal and bond funds), an increase of 7% over revised totals for 2017-18. General Fund spending in the budget package is \$138.7 billion—an increase of \$11.6 billion, or 9%, over the revised 2017-18 level. Special fund spending increased \$1.3 billion, or 2%, over the revised 2017-18 level.

##### *Considerable New Spending on Education*

The budget package contains significant increases for every education segment. For elementary and secondary schools, the state surpasses the Local Control Funding Formula target rates set in 2013-14. For early education, the budget contains higher spending for more slots, rate increases, staff training, and facilities.

##### *Proposition 98 Establishes Minimum Spending Level*

This minimum spending requirement is 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 student attendance. The state can spend at the minimum guarantee or any level above it. 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 growth is weak relative to changes in per capita personal income. Maintenance factor is paid when General Fund revenue growth is stronger.

## **CYPRESS SCHOOL DISTRICT**

*Management's Discussion and Analysis (Unaudited)  
For the Fiscal Year Ended June 30, 2018*

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### **FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)**

#### **The 2018-19 State Budget (continued)**

##### ***Higher Proposition 98 Spending in 2016-17 and 2017-18***

From the June 2017 budget plan to the June 2018 budget plan, spending increased \$252 million in 2016-17 and \$1.1 billion in 2017-18. These upward revisions are attributable mainly to higher General Fund revenue. As part of the 2017-18 increase, the state is making an additional maintenance factor payment of \$789 million (on top of a previous \$536 million payment). After making the \$1.3 billion total payment, the state will have eliminated all remaining maintenance factor for the first time since 2005-06. In both 2016-17 and 2017-18, the state is spending at the calculated minimum guarantee.

##### ***2018-19 Spending up Notably Over Revised 2017-18 Level***

For 2018-19, total Proposition 98 spending across all segments is \$78.4 billion, an increase of \$2.8 billion (3.7%) from the revised 2017-18 level. Test 2 is the operative test in 2018-19, with the increase in the guarantee attributable to a 3.67% increase in per capita personal income. Though the administration projects a 0.29% decline in student attendance for 2018-19, the budget makes no downward adjustment to the minimum guarantee. This is because the budget assumes that attendance *increases* the previous year (in 2017-18), thereby triggering a hold harmless provision in the State Constitution that negates any attendance declines over the subsequent two years. The budget sets total Proposition 98 spending in 2018-19 equal to the administration's May Revision estimate of the minimum guarantee.

##### ***\$67.9 Billion Proposition 98 Spending on K-12 Education in 2018-19***

The enacted 2018-19 level is \$2.4 billion (3.6%) more than the revised 2017-18 level and \$3.2 billion (4.9%) more than the *2017-18 Budget Act* level. The budget increases spending per student by \$579 (5.2%) over the *2017-18 Budget Act* level, bringing Proposition 98 spending per student up to \$11,645.

##### ***Package Includes Mix of Ongoing and One-Time Spending***

The budget includes \$5.7 billion in Proposition 98 augmentations for K-12 education across the three-year budget period. Of the \$5.7 billion, \$4 billion (70%) is ongoing and \$1.7 billion (30%) is one time. From an accounting perspective, the increase is scored across multiple fiscal years and includes settle-up and some unspent funds from prior years that have been repurposed. In addition to the Proposition 98 increase, the budget includes \$594 million in Proposition 51 bond authority for school facility projects and \$100 million in non-Proposition 98 funding for kindergarten school facilities.

##### ***Fully Implements the Local Control Funding Formula (LCFF) for Schools, Then Further Increases Rates***

In the January budget, the Governor proposed fully implementing LCFF and reaching the target funding rates. The final budget reaches and then goes beyond full implementation. Specifically, the budget closes the gap to the target rates and funds the statutory 2.71% cost-of-living adjustment (COLA) to those rates. In addition, the budget provides nearly an extra 1 percentage point increase in the LCFF rates—effectively funding a 3.7% COLA in 2018-19. The administration estimates that the combined ongoing cost of both full implementation and the augmented COLA is \$3.7 billion. This augmentation brings total LCFF spending for school districts and charter schools to \$61.1 billion, a 6.4% increase over the revised 2017-18 level. School districts and charter schools may use LCFF monies for any educational purpose.

## **CYPRESS SCHOOL DISTRICT**

*Management's Discussion and Analysis (Unaudited)  
For the Fiscal Year Ended June 30, 2018*

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### **FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)**

#### **The 2018-19 State Budget (continued)**

##### ***Funds One-Time Discretionary Grants***

The largest one-time spending initiative for K-12 education is \$1.1 billion that local education agencies (LEAs) may use for any educational purpose. Funding is distributed based on student attendance (an estimated \$183 per average daily attendance). If an LEA owes any funding to the federal government according to a 2014 settlement over Medi-Cal billing practices, the State Controller is to deduct this obligation from the LEA's discretionary grant. The budget assumes that these Medi-Cal obligations total \$145 million statewide (though the administration believes actual payments likely will come in lower). The remainder of each LEA's discretionary grant will be scored against any outstanding mandate claims. As less than one-third of LEAs have any such claims, it is estimated that only \$202 million of the funding provided will count toward the K-12 mandates backlog. It is estimated that the total remaining mandate backlog at the end of 2018-19 will be \$668 million.

All of these factors were considered in preparing the Cypress School District budget for the 2018-19 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, 2018*

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	<b>Total Governmental Activities</b>
<b>ASSETS</b>	
Cash	\$ 29,983,383
Accounts receivable	1,887,613
Inventories	17,528
Other current assets	16,679
Non-depreciable assets	17,977,797
Depreciable assets	80,112,340
Less accumulated depreciation	<u>(25,893,611)</u>
Total assets	<u>104,101,729</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred outflows related to pensions	11,322,508
Deferred amounts on refunding	<u>1,618,101</u>
Total deferred outflows of resources	<u>12,940,609</u>
<b>LIABILITIES</b>	
Accounts payable	3,619,569
Unearned revenue	397,917
Long-term liabilities:	
Portion due or payable within one year	1,833,675
Portion due or payable after one year	66,964,583
Net pension liability	<u>40,480,987</u>
Total liabilities	<u>113,296,731</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred inflows related to pensions	<u>1,767,121</u>
<b>NET POSITION</b>	
Net investment in capital assets	24,862,978
Restricted for:	
Capital projects	13,265,350
Debt service	2,507,757
Categorical and nutrition programs	700,169
Unrestricted	<u>(39,357,768)</u>
Total net position	<u>\$ 1,978,486</u>

**CYPRESS SCHOOL DISTRICT**  
*Statement of Activities*  
*For the Fiscal Year Ended June 30, 2018*

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions		Capital Grants and Contributions
<b>Governmental Activities</b>					
Instructional Services:					
Instruction	\$ 27,213,334	\$ 189,101	\$ 3,757,438	\$ 5,183,569	\$ (18,083,226)
Instruction-Related Services:					
Supervision of instruction	926,837	10,389	132,941	-	(783,507)
Instructional library, media and technology	775,837	-	267	-	(775,570)
School site administration	1,848,502	689	4,358	-	(1,843,455)
Pupil Support Services:					
Home-to-school transportation	483,432	2,124	19,941	-	(461,367)
Food services	1,737,262	748,048	995,640	-	6,426
All other pupil services	1,177,026	13,703	352,595	-	(810,728)
General Administration Services:					
Data processing services	599,320	-	-	-	(599,320)
Other general administration	3,221,692	866	63,290	-	(3,157,536)
Plant Services	4,689,818	-	207,677	-	(4,482,141)
Community Services	383,137	9,617	347,870	-	(25,650)
Enterprise Activities	1,526	-	15	-	(1,511)
Interest on Long-Term Debt	4,248,287	-	-	-	(4,248,287)
Other Outgo	926,840	53,874	458,401	-	(414,565)
Depreciation (unallocated)	3,141,048	-	-	-	(3,141,048)
Total Governmental Activities	\$ 51,373,898	\$ 1,028,411	\$ 6,340,433	\$ 5,183,569	(38,821,485)
<b>General Revenues:</b>					
Property taxes					23,647,385
Federal and state aid not restricted to specific purpose					12,694,295
Interest and investment earnings					300,611
Miscellaneous					2,871,088
Total general revenues					39,513,379
Change in net position					691,894
Net position - July 1, 2017, as originally stated					7,988,341
Restatement - change in accounting principle					(6,701,749)
Net position - July 1, 2017, as restated					1,286,592
Net position - June 30, 2018					\$ 1,978,486

**CYPRESS SCHOOL DISTRICT**  
*Balance Sheet – Governmental Funds*  
*June 30, 2018*

	General Fund	Special Reserve Fund for Capital Outlay	Non-Major Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash	\$ 14,613,812	\$ 9,257,907	\$ 5,507,593	\$ 29,379,312
Accounts receivable	1,502,040	135,759	159,912	1,797,711
Stores inventories	-	-	17,528	17,528
Due from other funds	55,547	1,481,313	12,231	1,549,091
Other current assets	16,679	-	-	16,679
Total Assets	<u>\$ 16,188,078</u>	<u>\$ 10,874,979</u>	<u>\$ 5,697,264</u>	<u>\$ 32,760,321</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities</b>				
Accounts payable	\$ 3,015,153	\$ 43,145	\$ 113,954	\$ 3,172,252
Due to other funds	1,656,310	-	111,454	1,767,764
Unearned revenue	267,755	-	130,162	397,917
Total Liabilities	<u>4,939,218</u>	<u>43,145</u>	<u>355,570</u>	<u>5,337,933</u>
<b>Fund Balances</b>				
Nonspendable	15,000	-	17,528	32,528
Restricted	299,754	10,831,834	5,324,166	16,455,754
Assigned	6,391,769	-	-	6,391,769
Unassigned	4,542,337	-	-	4,542,337
Total Fund Balances	<u>11,248,860</u>	<u>10,831,834</u>	<u>5,341,694</u>	<u>27,422,388</u>
Total Liabilities and Fund Balances	<u>\$ 16,188,078</u>	<u>\$ 10,874,979</u>	<u>\$ 5,697,264</u>	<u>\$ 32,760,321</u>

## CYPRESS SCHOOL DISTRICT

### Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position June 30, 2018

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<b>Total fund balances - governmental funds</b>		\$ 27,422,388
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 \$98,090,137 and the accumulated depreciation is (\$25,893,611).		72,196,526
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:		(447,288)
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:		89,142
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	53,368,512
	Other postemployment benefits payable	8,668,797
	Compensated absences payable	295,090
	Certificates of participation payable	6,465,859
	Total	<u>(68,798,258)</u>
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.		(40,480,987)
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:		1,618,101
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	11,322,508
	Deferred inflows of resources	(1,767,121)
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>823,475</u>
<b>Total net position - governmental activities</b>		<u>\$ 1,978,486</u>

**CYPRESS SCHOOL DISTRICT**

*Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds  
For the Fiscal Year Ended June 30, 2018*

	General Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
LCFF sources	\$ 31,376,390	\$ -	\$ -	\$ 31,376,390
Federal sources	1,464,467	-	1,190,375	2,654,842
Other state sources	5,750,072	-	5,624,559	11,374,631
Other local sources	3,141,257	1,018,924	3,676,867	7,837,048
<b>Total Revenues</b>	<b>41,732,186</b>	<b>1,018,924</b>	<b>10,491,801</b>	<b>53,242,911</b>
<b>EXPENDITURES</b>				
Current:				
Instructional Services:				
Instruction	27,229,158	-	-	27,229,158
Instruction-Related Services:				
Supervision of instruction	927,884	-	-	927,884
Instructional library, media and technology	755,776	-	-	755,776
School site administration	1,773,942	-	-	1,773,942
Pupil Support Services:				
Home-to-school transportation	447,640	-	-	447,640
Food services	-	-	1,624,686	1,624,686
All other pupil services	1,198,527	-	-	1,198,527
Enterprise Activities	1,535	-	-	1,535
General Administration Services:				
Data processing services	541,428	-	-	541,428
Other general administration	2,472,236	-	28,133	2,500,369
Plant Services	4,462,904	104,923	4,922	4,572,749
Community Services	-	-	357,486	357,486
Capital Outlay	160,864	159,450	139	320,453
Intergovernmental Transfers	925,090	-	-	925,090
Debt Service:				
Principal	-	455,000	671,098	1,126,098
Interest	-	220,132	1,818,998	2,039,130
<b>Total Expenditures</b>	<b>40,896,984</b>	<b>939,505</b>	<b>4,505,462</b>	<b>46,341,951</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	835,202	79,419	5,986,339	6,900,960
<b>OTHER FINANCING SOURCES (USES)</b>				
Interfund transfers in	-	6,661,361	-	6,661,361
Interfund transfers out	(1,481,313)	-	(5,180,048)	(6,661,361)
<b>Total Other Financing Sources and Uses</b>	<b>(1,481,313)</b>	<b>6,661,361</b>	<b>(5,180,048)</b>	<b>-</b>
Net Change in Fund Balances	(646,111)	6,740,780	806,291	6,900,960
Fund Balances, July 1, 2017	11,894,971	4,091,054	4,535,403	20,521,428
Fund Balances, June 30, 2018	\$ 11,248,860	\$ 10,831,834	\$ 5,341,694	\$ 27,422,388

## 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, 2018

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**Total net change in fund balances - governmental funds** \$ 6,900,960

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	520,710	
Depreciation expense	<u>(3,141,048)</u>	(2,620,338)

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: 1,126,098

In governmental funds, OPEB expenses are recognized when employer OPEB contributions are made. In the statement of financial activities, OPEB expenses are recognized on an accrual basis. This year, the difference between OPEB expenses and actual employer OPEB contributions was: (540,290)

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. (2,231,748)

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: (3,401)

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: (1,389,846)

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: 12,868

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). 36,331

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. (606,710)

**Change in net position of governmental activities** \$ 691,894

**CYPRESS SCHOOL DISTRICT**  
*Statement of Net Position – Proprietary Fund*  
*June 30, 2018*

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	<b>Governmental Activities Internal Service Fund</b>
<b>ASSETS</b>	
Current Assets:	
Cash	\$ 604,071
Due from other funds	218,673
Accounts receivable	<u>760</u>
Total Assets	823,504
<b>LIABILITIES</b>	
Accounts payable	<u>29</u>
<b>NET POSITION</b>	
Restricted	<u><u>\$ 823,475</u></u>

**CYPRESS SCHOOL DISTRICT**

*Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Fund  
For the Fiscal Year Ended June 30, 2018*

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	<b>Governmental Activities Internal Service Fund</b>
<b>OPERATING REVENUES</b>	
Self-insurance premiums	\$ 2,850,466
<b>OPERATING EXPENSES</b>	
Payments for services	<u>3,468,796</u>
Operating Income (Loss)	<u>(618,330)</u>
<b>NON-OPERATING REVENUES</b>	
Interest income	<u>11,620</u>
Change in Net Position	(606,710)
Net Position, July 1, 2017	<u>1,430,185</u>
Net Position, June 30, 2018	<u><u>\$ 823,475</u></u>



**CYPRESS SCHOOL DISTRICT**  
*Statement of Cash Flows – Proprietary Fund*  
*For the Fiscal Year Ended June 30, 2018*

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	<b>Governmental Activities</b>
	<b>Internal Service Fund</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from assessments made to other funds	\$ 2,631,793
Cash payments for payroll, insurance and operating costs	<u>(3,468,771)</u>
Net cash provided (used) by operating activities	(836,978)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest on investments	<u>11,461</u>
Net increase (decrease) in cash	(825,517)
Cash, July 1, 2017	<u>1,429,588</u>
Cash, June 30, 2018	<u><u>\$ 604,071</u></u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>	
Operating income (loss)	\$ (618,330)
Changes in operating assets and liabilities:	
Increase in amount due from other funds	(218,673)
Increase in estimated claim liability	<u>25</u>
Net cash provided (used) by operating activities	<u><u>\$ (836,978)</u></u>

**CYPRESS SCHOOL DISTRICT**  
*Statement of Fiduciary Net Position*  
*June 30, 2018*

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	<u>Agency Fund</u> <u>125 Plan Fund</u>
<b>ASSETS</b>	
Cash	\$ 39,542
Total Assets	<u>\$ 39,542</u>
<b>LIABILITIES</b>	
Due to employee groups	\$ 39,542
Total Liabilities	<u>\$ 39,542</u>

## CYPRESS SCHOOL DISTRICT

### Notes to Financial Statements

June 30, 2018

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#### 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. 61, *The Financial Reporting Entity: Omnibus – An Amendment of GASB Statements No. 14 and No. 34*, 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 Board of Trustees of the component units is essentially the same as the Board of Trustees 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, 2018

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## 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.

**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:**

**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.

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.

**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. Postemployment Benefits Other Than Pensions (OPEB)**

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Cypress School District Retiree Benefits Plan ("the Plan") and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, the Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.



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

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

**8. 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.

**9. 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.

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

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

**10. 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.
- **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.

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

**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.

**I. New GASB Pronouncements**

During the 2017-18 fiscal year, the following GASB Pronouncements became effective:

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

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

2. In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

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

**I. New GASB Pronouncements (continued)**

3. In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). Specifically, this Statement addresses the following topics:
  - Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation
  - Reporting amounts previously reported as goodwill and “negative” goodwill
  - Classifying real estate held by insurance entities
  - Measuring certain money market investments and participating interest-earning investment contracts at amortized cost
  - Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus
  - Recognizing on-behalf payments for pensions or OPEB in employer financial statements
  - Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB
  - Classifying employer-paid member contributions for OPEB
  - Simplifying certain aspects of the alternative measurement method for OPEB
  - Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.
  
4. In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources-resources other than the proceeds of refunding debt - are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

**CYPRESS SCHOOL DISTRICT**  
*Notes to Financial Statements*  
*June 30, 2018*

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**NOTE 2 – CASH**

Cash at June 30, 2018, is reported at fair value and consisted of the following:

	Governmental Activities			Fiduciary Funds
	Governmental Funds	Proprietary Fund	Total	
<b>Pooled Funds:</b>				
Cash in County Treasury	\$ 29,351,723	\$ 554,071	\$ 29,905,794	\$ -
<b>Deposits:</b>				
Cash on hand and in banks	-	50,000	50,000	39,542
Cash in revolving fund	15,000	-	15,000	-
Cash collections awaiting deposit	12,589	-	12,589	-
<b>Total Deposits</b>	<b>27,589</b>	<b>50,000</b>	<b>77,589</b>	<b>39,542</b>
<b>Total Cash</b>	<b>\$ 29,379,312</b>	<b>\$ 604,071</b>	<b>\$ 29,983,383</b>	<b>\$ 39,542</b>

**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, 2018, 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.

**NOTE 2 – CASH (continued)**

As of June 30, 2018, none of the District’s bank balance was exposed to custodial credit risk because it was insured by the FDIC.

**Fair Value Measurements**

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

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

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

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

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

**CYPRESS SCHOOL DISTRICT**  
*Notes to Financial Statements*  
 June 30, 2018

**NOTE 3 – ACCOUNTS RECEIVABLE**

Accounts receivable as of June 30, 2018, 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:					
Federal Revenue	\$ 534,443	\$ -	\$ 110,132	\$ 644,575	\$ -
State Government:					
LCFF	114,233	-	-	114,233	-
Lottery	169,732	-	-	169,732	-
Special education	40,341	-	-	40,341	-
Categorical aid programs	114,233	-	7,052	121,285	-
Local:					
Special education	288,727	-	-	288,727	-
Interest	76,880	10,759	11,560	99,199	760
Other local revenue	163,451	125,000	31,168	319,619	-
<b>Total</b>	<b>\$ 1,502,040</b>	<b>\$ 135,759</b>	<b>\$ 159,912</b>	<b>\$ 1,797,711</b>	<b>\$ 760</b>

**NOTE 4 – INTERFUND ACTIVITIES**

**A. Balances Due To/From Other Funds**

Balances due to/from other funds at June 30, 2018, consisted of the following:

	Due From Other Funds					Total
	General Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total Governmental Fund	Proprietary Self-Insurance Fund	
General Fund	\$ -	\$ 1,481,313	\$ 12,231	\$ 1,493,544	\$ 162,766	\$ 1,656,310
Non-Major Governmental Funds	55,547	-	-	55,547	55,907	111,454
<b>Total</b>	<b>\$ 55,547</b>	<b>\$ 1,481,313</b>	<b>\$ 12,231</b>	<b>\$ 1,549,091</b>	<b>\$ 218,673</b>	<b>\$ 1,767,764</b>

General Fund due to Child Development Fund to clear holding account balances	\$ 2,446
General Fund due to Cafeteria Fund to clear holding account balances and move year-end payroll accruals	9,785
General Fund due to Special Reserve Fund for Capital Outlay Projects to clear holding account balances and move year-end	1,481,313
General Fund due to Self-Insurance Fund for health insurance expenses	162,766
Child Development Fund due to General Fund to clear holding account balances, move payroll accruals and record indirect cost allocations	44,234
Child Development Fund due to Self-Insurance Fund for health insurance expenses	55,907
Cafeteria Fund due to General Fund to clear holding account balances, move payroll accruals, and reclassify noon duty salaries	11,313
<b>Total</b>	<b>\$ 1,767,764</b>

**CYPRESS SCHOOL DISTRICT**  
*Notes to Financial Statements*  
 June 30, 2018

**NOTE 4 – INTERFUND ACTIVITIES (continued)**

**B. Transfers To/From Other Funds**

Transfers to/from other funds during the year ended June 30, 2018, consisted of the following:

General Fund transfer to Special Reserve for Capital Outlay Projects Fund to cover major projects using community redevelopment funds for 2018-19	\$ 1,481,313
County School Facilities Fund transfer to Special Reserve Fund for Capital Outlay to reimburse for prior year expenditures for modernization projects reimbursement by the State in 2017-18	5,180,048
	<u>\$ 6,661,361</u>

**NOTE 5 – FUND BALANCES**

At June 30, 2018, 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
<b>Nonspendable:</b>				
Revolving cash	\$ 15,000	\$ -	\$ -	\$ 15,000
Stores inventories	-	-	17,528	17,528
Total Nonspendable	<u>15,000</u>	<u>-</u>	<u>17,528</u>	<u>32,528</u>
<b>Restricted:</b>				
Categorical programs	299,754	-	-	299,754
Food services	-	-	382,885	382,885
Capital projects	-	10,831,834	2,433,524	13,265,358
Debt service	-	-	2,507,757	2,507,757
Total Restricted	<u>299,754</u>	<u>10,831,834</u>	<u>5,324,166</u>	<u>16,455,754</u>
<b>Assigned:</b>				
Minimum proportionality reserve	614,535	-	-	614,535
ELA textbook adoption reserve	1,200,000	-	-	1,200,000
Accrued liability reserve	320,000	-	-	320,000
RRMA maintenance reserve	1,338,287	-	-	1,338,287
H&W reserve	350,000	-	-	350,000
STRS/PERS 18/19 increase reserve	550,500	-	-	550,500
STRS/PERS 19/20 increase reserve	550,000	-	-	550,000
Deferred maintenance	1,468,447	-	-	1,468,447
Total Assigned	<u>6,391,769</u>	<u>-</u>	<u>-</u>	<u>6,391,769</u>
<b>Unassigned:</b>				
Reserve for economic uncertainties	1,271,322	-	-	1,271,322
Remaining unassigned balances	3,271,015	-	-	3,271,015
Total Unassigned	<u>4,542,337</u>	<u>-</u>	<u>-</u>	<u>4,542,337</u>
Total	<u>\$ 11,248,860</u>	<u>\$ 10,831,834</u>	<u>\$ 5,341,694</u>	<u>\$ 27,422,388</u>



**CYPRESS SCHOOL DISTRICT**  
*Notes to Financial Statements*  
*June 30, 2018*

**NOTE 6 – CAPITAL ASSETS AND DEPRECIATION**

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

	Balance, July 1, 2017	Additions	Retirements	Balance, June 30, 2018
Capital assets not being depreciated:				
Land	\$ 17,890,905	\$ -	\$ -	\$ 17,890,905
Construction in progress	-	86,892	-	86,892
Total capital assets not being depreciated	<u>17,890,905</u>	<u>86,892</u>	<u>-</u>	<u>17,977,797</u>
Capital assets being depreciated:				
Improvement of sites	5,844,894	175,597	-	6,020,491
Buildings	72,356,538	-	-	72,356,538
Equipment	1,477,090	258,221	-	1,735,311
Total capital assets being depreciated	<u>79,678,522</u>	<u>433,818</u>	<u>-</u>	<u>80,112,340</u>
Accumulated depreciation for:				
Improvement of sites	(2,799,690)	(307,549)	-	(3,107,239)
Buildings	(19,629,889)	(2,676,183)	-	(22,306,072)
Equipment	(322,984)	(157,316)	-	(480,300)
Total accumulated depreciation	<u>(22,752,563)</u>	<u>(3,141,048)</u>	<u>-</u>	<u>(25,893,611)</u>
Total capital assets being depreciated, net	<u>56,925,959</u>	<u>(2,707,230)</u>	<u>-</u>	<u>54,218,729</u>
Governmental activity capital assets, net	<u>\$ 74,816,864</u>	<u>\$ (2,620,338)</u>	<u>\$ -</u>	<u>\$ 72,196,526</u>

**NOTE 7 – GENERAL LONG-TERM DEBT**

Changes in long-term debt for the year ended June 30, 2018, were as follows:

	Balance, July 1, 2017	Additions	Deductions	Balance, June 30, 2018	Amounts Due Within One Year
General obligation bonds:					
Principal payments	\$ 39,058,439	\$ -	\$ 671,098	\$ 38,387,341	\$ 1,098,178
Accreted interest	10,269,067	2,250,650	18,902	12,500,815	101,822
Unamortized premium	2,640,303	-	159,947	2,480,356	159,947
Sub-total bonds	<u>51,967,809</u>	<u>2,250,650</u>	<u>849,947</u>	<u>53,368,512</u>	<u>1,359,947</u>
Certificates of participation:					
Principal payments	7,030,000	-	455,000	6,575,000	485,000
Unamortized discount	(120,413)	-	(11,272)	(109,141)	(11,272)
Sub-total COPs	<u>6,909,587</u>	<u>-</u>	<u>443,728</u>	<u>6,465,859</u>	<u>473,728</u>
Other postemployment benefits	8,128,507	962,902	422,612	8,668,797	-
Compensated absences	331,421	-	36,331	295,090	-
Total	<u>\$ 67,337,324</u>	<u>\$ 3,213,552</u>	<u>\$ 1,752,618</u>	<u>\$ 68,798,258</u>	<u>\$ 1,833,675</u>

*Note: Beginning balance of OPEB liability has been restated due to the implementation of GASB Statement No.75*

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, 2018

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**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 December 10, 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, 2018, of \$1,618,101 remain to be amortized. As of June 30, 2018, 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, 2017	Additions	Deductions	Balance, June 30, 2018
2008A	5/5/2009	5/1/2034	2.0%-5.0%	\$ 16,999,052	\$ 3,024,052	\$ -	\$ 380,000	\$ 2,644,052
2008B-1	4/21/2011	8/1/2050	5.0%-5.25%	20,139,078	19,949,387	-	61,098	19,888,289
2008B-2	4/21/2011	8/1/2025	5.33%-6.65%	4,535,000	3,805,000	-	165,000	3,640,000
2015 Ref.	12/10/2015	8/1/2029	2.0%-5.0%	12,555,000	12,280,000	-	65,000	12,215,000
			Total	\$ 54,228,130	\$ 39,058,439	\$ -	\$ 671,098	\$ 38,387,341
			<u>Accreted Interest:</u>					
			2008A	\$ 1,332,673	\$ 235,233	\$ -	\$ -	\$ 1,567,906
			2008B-1	8,936,394	2,015,417	-	18,902	10,932,909
			Total	\$ 10,269,067	\$ 2,250,650	\$ -	\$ 18,902	\$ 12,500,815

**CYPRESS SCHOOL DISTRICT**  
*Notes to Financial Statements*  
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**NOTE 7 – GENERAL LONG-TERM DEBT (continued)**

**A. General Obligation Bonds**

The amounts required to amortize outstanding bonds at June 30, 2018, are as follows:

Fiscal Year	Principal	Interest	Total
2018-19	\$ 1,098,178	\$ 1,080,663	\$ 2,178,841
2019-20	1,239,574	1,078,264	2,317,838
2020-21	1,341,557	1,073,341	2,414,898
2021-22	1,480,295	1,065,793	2,546,088
2022-23	1,612,218	1,052,732	2,664,950
2023-28	12,700,910	2,621,661	15,322,571
2028-33	6,074,597	14,949,190	21,023,787
2033-38	1,844,717	26,677,949	28,522,666
2038-43	2,590,931	35,024,177	37,615,108
2043-48	2,470,810	46,641,983	49,112,793
2048-51	5,933,554	30,019,508	35,953,062
Total	\$ 38,387,341	\$ 161,285,261	\$ 199,672,602

**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, 2018, are as follows:

Fiscal Year	Principal	Interest	Total
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
2022-23	635,000	151,888	786,888
2023-28	3,815,000	419,838	4,234,838
Total	\$ 6,575,000	\$ 1,340,953	\$ 7,915,953

## CYPRESS SCHOOL DISTRICT

### Notes to Financial Statements

June 30, 2018

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#### 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
	<u>                    </u>	<u>                    </u>
Total Assets	\$ 1,898,003	\$ 3,129,720
Total Liabilities	<u>1,507,711</u>	<u>2,142,180</u>
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, 2018, 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 2018, 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, 2018*

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**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, 2016 to June 30, 2018:

	<u>Dental &amp; Vision</u>
Liability Balance, June 30, 2016	\$ 19
Claims and changes in estimates	3,297,429
Claims payments	<u>(3,297,444)</u>
Liability Balance, June 30, 2017	<u>\$ 4</u>
Claims and changes in estimates	3,468,763
Claims payments	<u>(3,468,796)</u>
Liability Balance, June 30, 2018	<u>\$ 29</u>
Assets available to pay claims at June 30, 2018	<u>\$ 823,504</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, 2018, the District had commitments with respect to unfinished capital projects of approximately \$0.7 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, 2018.

**CYPRESS SCHOOL DISTRICT**  
*Notes to Financial Statements*  
*June 30, 2018*

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**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 the California Public Employees' Retirement System (CalPERS).

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

Pension Plan	Net Pension Liability	Deferred Outflows of Resources	Deferred Inflows of Resources	Pension Expense
CalSTRS	\$ 31,215,176	\$ 8,541,243	\$ 1,564,225	\$ 3,496,269
CalPERS	9,265,811	2,781,265	202,896	1,640,834
Total	\$ 40,480,987	\$ 11,322,508	\$ 1,767,121	\$ 5,137,103

The details of each plan are as follows:

**A. California State Teachers' Retirement System (CalSTRS)**

**Plan Description**

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

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

**Benefits Provided**

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

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

**CYPRESS SCHOOL DISTRICT**  
*Notes to Financial Statements*  
*June 30, 2018*

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**NOTE 11 – PENSION PLANS (continued)**

**A. California State Teachers’ Retirement System (CalSTRS) (continued)**

**Benefits Provided (continued)**

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

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

	<b>STRP Defined Benefit Program</b>	
	On or before December 31, 2012	On or after January 1, 2013
Benefit Formula	2% at 60	2% at 62
Benefit Vesting Schedule	5 years of service	5 years of service
Benefit Payments	Monthly for life	Monthly for life
Retirement Age	60	62
Monthly Benefits as a Percentage of Eligible Compensation	2.0%-2.4%	2.0%-2.4%
Required Employee Contribution Rate	10.25%	9.205%
Required Employer Contribution Rate	14.43%	14.43%
Required State Contribution Rate	9.328%	9.328%

**Contributions**

Required member District and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers’ Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1% of applicable member earnings phased over a seven year period. The contribution rates for each plan for the year ended June 30, 2018, are presented above and the District’s total contributions were \$2,642,830.

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

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

Total net pension liability, including State share:	
District’s proportionate share of net pension liability	\$ 31,215,176
State’s proportionate share of the net pension liability associated with the District	7,289,949
Total	<u>\$ 38,505,126</u>

**CYPRESS SCHOOL DISTRICT**  
*Notes to Financial Statements*  
*June 30, 2018*

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**NOTE 11 – PENSION PLANS (continued)**

**A. California State Teachers’ Retirement System (CalSTRS) (continued)**

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

The net pension liability was measured as of June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. The District's proportions of the net pension liability for the two most recent measurement periods were:

	<b>Percentage Share of Risk Pool</b>		<b>Change Increase/ (Decrease)</b>
	<b>Fiscal Year Ending June 30, 2018</b>	<b>Fiscal Year Ending June 30, 2017</b>	
Measurement Date	<u>June 30, 2017</u>	<u>June 30, 2016</u>	
Proportion of the Net Pension Liability	0.033800%	0.034000%	-0.000200%

For the year ended June 30, 2018, the District recognized pension expense of \$3,496,269. In addition, the District recognized pension expense and revenue of \$329,078 for support provided by the State. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 2,642,830	\$ -
Net change in proportionate share of net pension liability	-	188,435
Difference between projected and actual earnings on pension plan investments	-	831,347
Changes of assumptions	5,782,976	-
Differences between expected and actual experience in the measurement of the total pension liability	115,437	544,443
Total	<u>\$ 8,541,243</u>	<u>\$ 1,564,225</u>

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year. The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period. The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, changes of assumptions, and differences between expected and actual experience in the measurement of the total pension liability will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is 7 years.



**CYPRESS SCHOOL DISTRICT**  
*Notes to Financial Statements*  
*June 30, 2018*

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**NOTE 11 – PENSION PLANS (continued)**

**A. California State Teachers’ Retirement System (CalSTRS) (continued)**

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ 143,536
2020	1,357,647
2021	910,076
2022	95,943
2023	897,587
Thereafter	929,399
Total	<u>\$ 4,334,188</u>

**Actuarial Methods and Assumptions**

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

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Experience Study	July 1, 2010 through June 30, 2015
Actuarial Cost Method	Entry age normal
Investment Rate of Return	7.1%
Consumer Price of Inflation	2.75%
Wage Growth	3.5%

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best-estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant (Pension Consulting Alliance–PCA) as an input to the process. The actuarial investment rate of return assumption was adopted by the board in February 2017 in conjunction with the most recent experience study.

**CYPRESS SCHOOL DISTRICT**  
*Notes to Financial Statements*  
 June 30, 2018

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**NOTE 11 – PENSION PLANS (continued)**

**A. California State Teachers’ Retirement System (CalSTRS) (continued)**

**Actuarial Methods and Assumptions (continued)**

For each future valuation, CalSTRS consulting actuary (Milliman) reviews the return assumption for reasonableness based on the most current capital market assumptions. Best estimates of 20-year geometrically-linked real rates of return and the assumed asset allocation for each major asset class for the year ended June 30, 2017, are summarized in the following table:

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

**Discount Rate**

The discount rate used to measure the total pension liability was 7.1%. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.1%) and assuming that contributions, benefit payments and administrative expense occurred midyear. Based on these assumptions, the STRP's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

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

Discount Rate	Net Pension Liability
1% decrease (6.10%)	\$ 45,833,789
Current discount rate (7.10%)	31,215,176
1% increase (8.10%)	19,351,182

**On Behalf Payments**

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of \$1,501,733 (9.328% of annual payroll). Under accounting principles generally accepted in the United States of America, these amounts are reported as revenues and expenditures. On behalf payments have been included in the budgeted amounts reported in the General Fund - Budgetary Comparison Schedule.

**NOTE 11 – PENSION PLANS (continued)**

**B. California Public Employees Retirement System (CalPERS)**

**Plan Description**

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

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2016 annual actuarial valuation report, Schools Pool Actuarial Valuation. This report and CalPERS audited financial information are publically available reports that can be found on the CalPERS website under Forms and Publications at: <https://www.calpers.ca.gov/page/forms-publications>.

**Benefits Provided**

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

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

	<b>School Employer Pool (CalPERS)</b>	
	On or before December 31, 2012	On or after January 1, 2013
Hire Date		
Benefit Formula	2% at 55	2% at 62
Benefit Vesting Schedule	5 years of service	5 years of service
Benefit Payments	Monthly for life	Monthly for life
Retirement Age	55	62
Monthly Benefits as a Percentage of Eligible Compensation	1.1%-2.5%	1.0%-2.5%
Required Employee Contribution Rate	7.00%	6.00%
Required Employer Contribution Rate	15.531%	15.531%

**Contributions**

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

**CYPRESS SCHOOL DISTRICT**  
*Notes to Financial Statements*  
 June 30, 2018

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**NOTE 11 – PENSION PLANS (continued)**

**B. California Public Employees Retirement System (CalPERS) (continued)**

**Contributions (continued)**

The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2018, are presented above and the total District contributions were \$775,358.

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

As of June 30, 2018, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$9,265,811. The net pension liability was measured as of June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportions of the net pension liability for the two most recent measurement periods were:

	<b>Percentage Share of Risk Pool</b>		<b>Change Increase/ (Decrease)</b>
	<b>Fiscal Year Ending June 30, 2018</b>	<b>Fiscal Year Ending June 30, 2017</b>	
Measurement Date	<u>June 30, 2017</u>	<u>June 30, 2016</u>	
Proportion of the Net Pension Liability	0.038800%	0.039200%	-0.000400%

For the year ended June 30, 2018, the District recognized pension expense of \$1,640,834. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 775,358	\$ -
Net change in proportionate share of net pension liability	-	93,803
Difference between projected and actual earnings on pension plan investments	320,534	-
Changes of assumptions	1,353,417	109,093
Differences between expected and actual experience in the measurement of the total pension liability	331,956	-
Total	<u>\$ 2,781,265</u>	<u>\$ 202,896</u>

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year. The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period. The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, changes of assumptions, and differences between expected and actual experience in the measurement of the total pension liability will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is 4 years.

**CYPRESS SCHOOL DISTRICT**  
*Notes to Financial Statements*  
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**NOTE 11 – PENSION PLANS (continued)**

**B. California Public Employees Retirement System (CalPERS) (continued)**

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

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ 472,887
2020	889,654
2021	631,868
2022	(191,398)
2023	-
Thereafter	-
Total	<u>\$ 1,803,011</u>

**Actuarial Methods and Assumptions**

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

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Experience Study	July 1, 1997 through June 30, 2011
Actuarial Cost Method	Entry age normal
Discount Rate	7.15%
Consumer Price of Inflation	2.75%
Wage Growth	Varies by entry age and service

Mortality assumptions are based on mortality rates resulting from the most recent CalPERS experience study adopted by the CalPERS Board. For purposes of the post-retirement mortality rates, those revised rates include 20 years of mortality improvements, using Scale BB published by the Society of Actuaries.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first ten years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the 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 adjusted to account for assumed administration expenses.

**CYPRESS SCHOOL DISTRICT**  
*Notes to Financial Statements*  
 June 30, 2018

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**NOTE 11 – PENSION PLANS (continued)**

**B. California Public Employees Retirement System (CalPERS) (continued)**

**Actuarial Methods and Assumptions (continued)**

The target asset allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global Equity	47%	5.38%
Fixed Income	19%	2.27%
Inflation Assets	6%	1.39%
Private Equity	12%	6.63%
Real Estate	11%	5.21%
Infrastructure and Forestland	3%	5.36%
Liquidity	2%	-0.90%

**Discount Rate**

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

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

Discount Rate	Net Pension Liability
1% decrease (6.15%)	\$ 13,632,977
Current discount rate (7.15%)	9,265,811
1% increase (8.15%)	5,642,881

**C. Social Security**

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) must be covered by social security or an alternative plan. The District has elected to use the Social Security as its alternative plan.

**D. Payables to the Pension Plans**

At June 30, 2018, the District reported payables of \$7,314 and \$58,537 for the outstanding amount of legally required contributions to the CalSTRS and CalPERS pension plans, respectively, required for the fiscal year ended June 30, 2018.

**CYPRESS SCHOOL DISTRICT**  
*Notes to Financial Statements*  
*June 30, 2018*

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**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**

**A. General Information about the OPEB Plan**

**Plan description**

The District’s defined benefit OPEB plan provides OPEB for eligible certificated, classified, and management employees of the District. The authority to establish and amend the benefit terms and financing requirements are governed by collective bargaining agreements with plan members. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement 75.

**Benefits provided**

The postretirement health plans and the District’s obligation vary by employee group as described below.

	<u>Certificated Management</u>	<u>Certificated</u>	<u>Classified</u>	<u>Classified Management</u>
Benefit types provided	Medical, dental, and vision	Medical, dental, and vision	Medical, dental, and vision	Medical, dental, and vision
Duration of Benefits	To Medicare age	To Medicare age	To Medicare age	To Medicare age
Required Service	10 years	10 years	10 years	10 years
Minimum Age	55	55	55	55
Dependent Coverage	No	No	No	No
District Contribution %	100%	100%	100%	100%
District Cap	Same as active	Same as active	Same as active	Same as active

**Employees covered by benefit terms**

At June 30, 2018, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	25
Active employees	258
Total	283

**Medicare Premium Payment (MPP) Program**

The Medicare Premium Payment Program is a cost-sharing multiple-employer other postemployment benefit plan established pursuant to Chapter 1032, Statutes of 2000 (SB 1435). CalSTRS administers the MPP Program, through the Teachers’ Health Benefit Fund. The MPP Program pays Medicare Part A premiums and Medicare Parts A and B late enrollment surcharges for eligible members of the Defined Benefit Program who were retired or began receiving a disability allowance prior to July 1, 2012, and were not eligible for premium free Medicare Part A. The payments are made directly to the Centers for Medicare and Medicaid Services on a monthly basis.

**CYPRESS SCHOOL DISTRICT**  
*Notes to Financial Statements*  
*June 30, 2018*

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**NOTE 13 – OTHER POSTEMPLOYMENT BENEFITS (continued)**

**B. Total OPEB Liability**

The District’s total OPEB liability of \$8,442,786 for the District Plan was measured as of June 30, 2018, and was determined by an actuarial valuation as of that date. The District’s proportionate share of the net MPP Program OPEB liability of \$226,011 was measured as of June 30, 2017, and was determined by an actuarial valuation as of June 30, 2016.

**Actuarial assumptions and other inputs**

The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

	District Plan	MPP Program
Valuation Date	June 30, 2018	June 30, 2016
Experience Study	N/A	July 1, 2010, through June 30, 2015
Inflation	2.75 percent	N/A
Salary increases	2.75 percent, average, including inflation	N/A
Healthcare cost trend rates	4.0 percent, net of OPEB plan investment expense, including inflation	3.58 percent
Retirees’ share of benefit-related costs	Fully coverage for employee and varying percentages for one dependent and family plans	3.7 percent for Medicare Part A, and 4.1 percent for Medicare Part B

**District Plan**

The discount rate of 3.8% is the average, rounded to 5 basis points, of the range of 3-20 year municipal bond rate indices: S&P Municipal Bond 20 Year High Grade Rate Index, Bond Buyer 20-Bond GO index, Fidelity GO AA 20 Year Bond Index.

Mortality rates are based on the most recent rates used by CalPERS and CalSTRS for the pension valuations.

**MPP Program**

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

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



**CYPRESS SCHOOL DISTRICT**  
*Notes to Financial Statements*  
*June 30, 2018*

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**NOTE 13 – OTHER POSTEMPLOYMENT BENEFITS (continued)**

**C. Changes in the Total OPEB Liability**

	<b>Total OPEB Liability</b>
<b>Balance at July 1, 2017</b>	<u>\$ 7,877,078</u>
<b>Changes for the year:</b>	
Service cost	636,356
Interest	303,969
Employer contributions	<u>(374,617)</u>
Net changes	<u>565,708</u>
<b>Balance at June 30, 2018</b>	<u>8,442,786</u>
<b>District's Proportionate Share of the Net MPP OPEB Liability</b>	<u>226,011</u>
<b>District's Total Reported Net OPEB Liability</b>	<u><u>\$ 8,668,797</u></u>

**Sensitivity of the total OPEB liability to changes in the discount rate**

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is one percentage-point lower or one percentage-point higher than the current discount rate:

	1% Decrease <u>2.8%</u>	Discount Rate <u>3.8%</u>	1% Increase <u>4.8%</u>
District Plan	\$ 8,918,772	\$ 8,442,786	\$ 7,979,106
	1% Decrease <u>2.58%</u>	Discount Rate <u>3.58%</u>	1% Increase <u>4.58%</u>
MPP Program	\$ 250,210	\$ 226,011	\$ 202,473

**CYPRESS SCHOOL DISTRICT**  
*Notes to Financial Statements*  
 June 30, 2018

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**NOTE 13 – OTHER POSTEMPLOYMENT BENEFITS (continued)**

**C. Changes in the Total OPEB Liability (continued)**

**Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates**

The following presents the total OPEB liability of the District, as well as what the District’s total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage-point lower or one percentage-point higher than the current healthcare cost trend rates:

	1% Decrease 3.0%	Healthcare Cost Trend Rates 4.0%	1% Increase 5.0%
District Plan	\$ 8,122,524	\$ 8,442,786	\$ 8,650,245
	1% Decrease (2.7% Part A and 3.1% Part B)	Medicare Cost Trend Rates (3.7% Part A and 4.1% Part B)	1% Increase (4.7% Part A and 5.1% Part B)
MPP Program	\$ 204,236	\$ 226,011	\$ 247,569

**D. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

For the year ended June 30, 2018, the District recognized OPEB expense of \$940,325. At June 30, 2018, the District reported no deferred outflows of resources or deferred inflows of resources related to OPEB.

**E. Payable to the OPEB Plan**

At June 30, 2018, the District did not report any payables for the outstanding amount of contributions for OPEB required for the year ended June 30, 2018.

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***Required Supplementary Information***

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**CYPRESS SCHOOL DISTRICT**

*Budgetary Comparison Schedule – General Fund  
For the Fiscal Year Ended June 30, 2018*

	<b>Budgeted Amounts</b>		<b>Actual* (Budgetary Basis)</b>	<b>Variance with Final Budget - Pos (Neg)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues</b>				
LCFF Sources	\$ 31,383,329	\$ 31,469,946	\$ 31,376,390	\$ (93,556)
Federal Sources	1,751,204	1,668,702	1,464,467	(204,235)
Other State Sources	4,511,483	5,172,650	5,750,072	577,422
Other Local Sources	3,065,850	3,097,850	3,122,432	24,582
<b>Total Revenues</b>	<b>40,711,866</b>	<b>41,409,148</b>	<b>41,713,361</b>	<b>304,213</b>
<b>Expenditures</b>				
Current:				
Certificated Salaries	18,660,393	18,631,027	18,295,541	335,486
Classified Salaries	5,974,997	6,195,871	6,003,879	191,992
Employee Benefits	8,975,551	8,938,881	8,536,808	402,073
Books and Supplies	1,922,600	2,534,417	2,265,972	268,445
Services and Other Operating Expenditures	4,316,581	4,637,011	4,586,371	50,640
Capital Outlay	313,697	513,135	310,552	202,583
Intergovernmental Transfers	715,658	878,765	896,958	(18,193)
<b>Total Expenditures</b>	<b>40,879,477</b>	<b>42,329,107</b>	<b>40,896,081</b>	<b>1,433,026</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(167,611)	(919,959)	817,280	1,737,239
<b>Other Financing Sources and Uses</b>				
Interfund Transfers Out	(1,192,601)	(1,192,601)	(1,481,313)	(288,712)
<b>Net Changes in Fund Balances</b>	<b>(1,360,212)</b>	<b>(2,112,560)</b>	<b>(664,033)</b>	<b>1,448,527</b>
Fund Balances, July 1, 2017	8,561,652	10,444,446	10,444,446	-
<b>Fund Balances, June 30, 2018</b>	<b>\$ 7,201,440</b>	<b>\$ 8,331,886</b>	<b>\$ 9,780,413</b>	<b>\$ 1,448,527</b>

\* 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 Proportionate Share of the Net Pension Liability For the Fiscal Year Ended June 30, 2018

	Last Ten Fiscal Years*			
	2018	2017	2016	2015
<b>CalSTRS</b>				
District's proportion of the net pension liability	0.0338%	0.0340%	0.0340%	0.0340%
District's proportionate share of the net pension liability	\$ 31,215,176	\$ 27,499,540	\$ 22,890,160	\$ 19,868,580
State's proportionate share of the net pension liability associated with the District	17,772,859	15,657,302	12,106,339	11,997,627
Totals	\$ 48,988,035	\$ 43,156,842	\$ 34,996,499	\$ 31,866,207
District's covered-employee payroll	\$ 18,047,393	\$ 17,059,469	\$ 15,888,615	\$ 15,003,115
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	172.96%	161.20%	144.07%	132.43%
Plan fiduciary net position as a percentage of the total pension liability	69%	70%	74%	77%
<b>CalPERS</b>				
District's proportion of the net pension liability	0.0388%	0.0392%	0.0390%	0.0394%
District's proportionate share of the net pension liability	\$ 9,265,811	\$ 7,742,024	\$ 5,748,638	\$ 4,472,859
District's covered-employee payroll	\$ 4,967,188	\$ 4,716,207	\$ 4,325,096	\$ 4,293,262
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	186.54%	164.16%	132.91%	104.18%
Plan fiduciary net position as a percentage of the total pension liability	72%	74%	79%	83%

### Changes in Benefit Terms

A summary of the plan provisions that were used for a specific plan can be found in each plan's annual valuation report.

### Change of Assumptions and Methods

#### CalSTRS:

The assumptions used in determining the Total Pension Liability of the STRP changed as a result of the actuarial experience study for the period starting July 1, 2010 and ending June 30, 2015. The assumption changes were to price inflation, wage growth, discount rate and the mortality tables.

#### CalPERS:

In Fiscal Year 2016-17, the financial reporting discount rate for the PERF B was lowered from 7.65 percent to 7.15 percent. In December 2016, the CalPERS Board approved lowering the funding discount rate used in the PERF B from 7.50 percent to 7.00 percent, which is to be phased-in over a three-year period (7.50 percent to 7.375 percent, 7.375 percent to 7.25 percent, and 7.25 percent to 7.00 percent) beginning with the June 30, 2017, valuation reports. The funding discount rate includes a 15 basis-point reduction for administrative expenses, and the remaining decrease is consistent with the change in the financial reporting discount rate.

In Fiscal Year 2014-15, the financial reporting discount rate was increased from 7.50 percent to 7.65 percent resulting from eliminating the 15 basis-point reduction for administrative expenses. The funding discount rate remained at 7.50 percent during this period, and remained adjusted for administrative expenses.

\* 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, 2018*

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	Last Ten Fiscal Years*			
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>CalSTRS</b>				
Contractually required contribution	\$ 2,642,830	\$ 2,270,362	\$ 1,830,481	\$ 1,410,909
Contributions in relation to the contractually required contribution	<u>2,642,830</u>	<u>2,270,362</u>	<u>1,830,481</u>	<u>1,410,909</u>
Contribution deficiency (excess):	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	<u>\$ 18,314,830</u>	<u>\$ 18,047,393</u>	<u>\$ 17,059,469</u>	<u>\$ 15,888,615</u>
Contributions as a percentage of covered-employee payroll	<u>14.43%</u>	<u>12.58%</u>	<u>10.73%</u>	<u>8.88%</u>
<b>CalPERS</b>				
Contractually required contribution	\$ 775,358	\$ 689,843	\$ 558,729	\$ 509,017
Contributions in relation to the contractually required contribution	<u>775,358</u>	<u>689,843</u>	<u>558,729</u>	<u>509,017</u>
Contribution deficiency (excess):	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	<u>\$ 4,992,325</u>	<u>\$ 4,967,188</u>	<u>\$ 4,716,207</u>	<u>\$ 4,325,096</u>
Contributions as a percentage of covered-employee payroll	<u>15.531%</u>	<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**

*Schedule of Changes in the District's Total OPEB Liability and Related Ratios  
For the Fiscal Year Ended June 30, 2018*

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Last 10 Fiscal Years\*

	<u>2017</u>
<b>Total OPEB liability</b>	
Service cost	\$ 636,356
Interest	303,969
Benefit payments	<u>(374,617)</u>
<b>Net change in total OPEB liability</b>	565,708
<b>Total OPEB liability - beginning</b>	<u>7,877,078</u>
<b>Total OPEB liability - ending</b>	<u><u>\$ 8,442,786</u></u>
<b>Covered-employee payroll</b>	<u>\$ 24,098,334</u>
<b>Total OPEB liability as a percentage of covered-employee payroll</b>	<u>35.03%</u>

**Notes to Schedule:**

*No changes in assumptions or benefit terms.*

*\* 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 Changes in the District's Total OPEB Liability and Related Ratios – MPP Program  
For the Fiscal Year Ended June 30, 2018**(Dollars in Thousands, except for District's proportionate share)*

	<b>2017</b>
<b>Total OPEB liability</b>	
Interest	\$ 12,928
Differences between expected and actual experience	(41)
Changes of assumptions	(31,240)
Benefit payments, including refunds of member contributions	(28,929)
<b>Net change in total OPEB liability</b>	<b>(47,282)</b>
<b>Total OPEB liability - beginning</b>	<b>468,031</b>
<b>Total OPEB liability - ending</b>	<b>\$ 420,749</b>
<b>Plan fiduciary net position</b>	
Contributions - employer	\$ 29,117
Net investment income	11
Premiums paid	(28,929)
Administrative expense	(168)
<b>Net change in plan fiduciary net position</b>	<b>31</b>
<b>Plan fiduciary net position - beginning</b>	<b>10</b>
<b>Plan fiduciary net position - ending</b>	<b>\$ 41</b>
<b>Net OPEB liability</b>	<b>\$ 420,708</b>
<b>District's proportionate share of net OPEB liability</b>	<b>\$ 226,011</b>
<b>Plan fiduciary net position as a percentage of the total OPEB liability</b>	<b>0.01%</b>
<b>Covered-employee payroll</b>	<b>N/A</b>
<b>District's net OPEB liability as a percentage of covered-employee payroll</b>	<b>N/A</b>

**Notes to Schedule:**

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

*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, 2018

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### 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 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.

#### **Schedule of Changes in the District's Total OPEB Liability and Related Ratios**

This schedule is required by GASB Statement No. 75 for all sole and agent employers that provide other postemployment benefits (OPEB). The schedule presents information of the measurement date of the net OPEB liability.

### NOTE 2 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

At June 30, 2018, the District incurred the following excess of expenditures over appropriations in individual major funds presented in the Budgetary Comparison Schedule:

	Fund
Intergovernmental Transfers	\$ 18,193
Interfund Transfers	288,712

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***Supplementary Information***

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## **CYPRESS SCHOOL DISTRICT**

### *Local Educational Agency Organization Structure*

*June 30, 2018*

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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.

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

#### **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, 2018*

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	<b>Second Period Report</b>	<b>Annual Report</b>
	Certificate No. (2F4DE035)	Certificate No. (E06ADEA9)
<b>Regular &amp; Extended Year ADA:</b>		
Transitional Kindergarten through Third	2,102.92	2,104.96
Fourth through Sixth	1,737.10	1,736.17
Total Regular & Extended Year ADA	3,840.02	3,841.13
<b>Special Education, Nonpublic, Nonsectarian Schools:</b>		
Transitional Kindergarten through Third	2.89	3.14
Fourth through Sixth	3.12	3.22
Total Special Education, Nonpublic, Nonsectarian Schools	6.01	6.36
Total ADA	3,846.03	3,847.49

**CYPRESS SCHOOL DISTRICT**  
*Schedule of Instructional Time*  
*For the Fiscal Year Ended June 30, 2018*

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<u>Grade Level</u>	<u>Minutes Requirement</u>	<u>2017-18 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Status</u>
Kindergarten	36,000	45,825	180	Complied
Grade 1	50,400	52,800	180	Complied
Grade 2	50,400	52,800	180	Complied
Grade 3	50,400	52,800	180	Complied
Grade 4	54,000	55,615	180	Complied
Grade 5	54,000	55,615	180	Complied
Grade 6	54,000	55,615	180	Complied



**CYPRESS SCHOOL DISTRICT**  
*Schedule of Financial Trends and Analysis*  
*For the Fiscal Year Ended June 30, 2018*

General Fund	(Budget)			
	2019 <sup>3</sup>	2018 <sup>2</sup>	2017	2016
Revenues and other financing sources	\$ 42,610,361	\$ 41,713,361	\$ 40,973,766	\$ 40,060,021
Expenditures	40,537,564	40,896,081	39,493,399	36,528,197
Other uses and transfers out	820,215	1,481,313	1,500,000	1,692,601
Total outgo	41,357,779	42,377,394	40,993,399	38,220,798
Change in fund balance (deficit)	1,252,582	(664,033)	(19,633)	1,839,223
Ending fund balance	\$ 11,032,995	\$ 9,780,413	\$ 10,444,446	\$ 10,464,079
Available reserves <sup>1</sup>	\$ 2,775,532	\$ 4,542,337	\$ 3,426,956	\$ 3,282,732
Available reserves as a percentage of total outgo	6.7%	10.7%	8.4%	8.6%
Total long-term debt	\$ 109,879,770	\$ 109,279,245	\$ 102,578,888	\$ 88,090,288
Average daily attendance at P-2	3,701	3,846	3,854	3,838

The General Fund balance has decreased by \$683,666 over the past two years. The fiscal year 2018-19 adopted budget projects an increase of \$1,252,582. 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, but anticipates incurring an operating surplus during the 2018-19 year. Long-term debt has increased by \$21,188,957 over the past two years.

Average daily attendance has increased by 8 over the past two years. ADA is expected to decrease by 145 in fiscal year 2018-19.

<sup>1</sup> Available reserves consist of all unassigned fund balances in the General Fund.

<sup>2</sup> 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.

<sup>3</sup> Revised Final Budget September, 2018.

**CYPRESS SCHOOL DISTRICT**

*Reconciliation of Annual Financial and Budget Report with Audited Financial Statements  
For the Fiscal Year Ended June 30, 2018*

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	<u>Special Reserve Fund for Capital Outlay Projects</u>
June 30, 2018, annual financial and budget report (SACS) fund balance	\$ 10,938,438
Adjustments and reclassifications:	
Increasing (decreasing) the fund balance:	
Duplicate revenue recorded	<u>(106,604)</u>
June 30, 2018, audited financial statement fund balance	<u><u>\$ 10,831,834</u></u>

**CYPRESS SCHOOL DISTRICT**  
*Schedule of Expenditures of Federal Awards*  
*For the Fiscal Year Ended June 30, 2018*

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Cluster Expenditures	Federal Expenditures
<b>Federal Programs:</b>				
U.S. Department of Agriculture:				
Passed through California Dept. of Education (CDE):				
Child Nutrition Cluster:				
School Breakfast Program - Especially Needy	10.553	13526	\$ 84,985	
National School Lunch Program	10.555	13523	775,087	
USDA Donated Foods	10.555	N/A	138,564	
Summer Food Service Program Operations	10.559	13004	<u>3,947</u>	
Total Child Nutrition Cluster				\$ 1,002,583
U.S. Department of Education:				
Passed through California Dept. of Education (CDE):				
Every Student Succeeds Act (ESSA):				
Title I, Part A, Basic Grants	84.010	14329		252,947
Title II, Part A, Supporting Effective Instruction	84.367	14341		188,117
Title III English Language Acquisition Grants:				
Title III, Immigrant Education Program	84.365	15146	10,169	
Title III, Limited English Proficient (LEP) Student Program	84.365	14346	<u>28,765</u>	
Total English Language Acquisition Cluster				38,934
Individuals with Disabilities Education Act (IDEA):				
Passed through Greater Anaheim SELPA:				
Special Education Cluster:				
Basic Local Assistance Entitlement, Part B	84.027	13379	612,101	
Preschool Grants, Part B, Section 619	84.173	13430	35,172	
Preschool Local Entitlement, Part B, Section 611	84.027A	13682	108,051	
Mental Health Allocation Plan, Part B, Section 611	84.027	14468	<u>44,548</u>	
Total Special Education Cluster				<u>799,872</u>
Total U.S. Department of Education				<u>1,279,870</u>
U.S. Department of Health & Human Services:				
Passed through California Dept. of Education:				
Medicaid Cluster:				
Medi-Cal Billing Option	93.778	10013	106,060	
Medi-Cal Administrative Activities (MAA)	93.778	10060	<u>93,382</u>	
Total Medicaid Cluster				<u>199,442</u>
Total U.S. Department of Health & Human Services				<u>199,442</u>
Total Expenditures of Federal Awards				<u>\$ 2,481,895</u>

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, 2018

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### 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, 2018.

	<u>CFDA Number</u>	<u>Amount</u>
Total Federal Revenues from the Statement of Revenues, Expenditures, and Changes in Fund Balances		\$ 2,654,842
Differences between Federal Revenues and Expenditures:		
Qualified School Construction Bonds - Interest Subsidy	Not applicable	(187,792)
Medi-Cal Billing Option	93.778	29,002
Medi-Cal Administrative Activities	93.778	(14,157)
Total Schedule of Expenditures of Federal Awards		<u>\$ 2,481,895</u>

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***Other Independent Auditors' Reports***

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**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, 2018, 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 26, 2018.

**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.



Murrieta, California  
November 26, 2018



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 2017-18 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, 2018.

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 2017-18 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: Local Education Agencies Other Than Charter Schools: Attendance (Yes), Teacher Certification and Misassignments (Yes), Kindergarten Continuance (Yes), Independent Study (No (see below)), Continuation Education (Not Applicable), Instructional Time (Yes), Instructional Materials (Yes), Ratio of Administrative Employees to Teachers (Yes).

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
Apprenticeship: Related and Supplemental Instruction	Not Applicable
School Districts, County Offices of Education, and Charter Schools:	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After/Before 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
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, 2018.

***Other Matter***

The results of our auditing procedures disclosed an instance of noncompliance with the compliance requirements referred to previously, which is required to be reported in accordance with the *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, and which is described in the accompanying schedule of findings and questioned costs as Finding 2018-001. Our opinion on each state program is not modified with respect to this matter.

***District's Response to Finding***

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

*Nijse + Nijse, PC.*

Murrieta, California  
November 26, 2018



**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, 2018. 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, 2018.

### **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.



Murrieta, California  
November 26, 2018

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## ***Findings and Questioned Costs***

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**CYPRESS SCHOOL DISTRICT**

*Schedule of Audit Findings and Questioned Costs  
For the Fiscal Year Ended June 30, 2018*

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**SECTION I - SUMMARY OF AUDITORS' RESULTS**

***Financial Statements***

Type of auditors' 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 auditors' 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</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 auditors' report issued on compliance for state programs:	<u>Unmodified</u>
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**CYPRESS SCHOOL DISTRICT**

*Schedule of Audit Findings and Questioned Costs  
For the Fiscal Year Ended June 30, 2018*

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**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 2017-18.***

**CYPRESS SCHOOL DISTRICT**

*Schedule of Audit Findings and Questioned Costs  
For the Fiscal Year Ended June 30, 2018*

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**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 2017-18.*

# CYPRESS SCHOOL DISTRICT

## Schedule of Audit Findings and Questioned Costs For the Fiscal Year Ended June 30, 2018

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### SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

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

#### **Finding 2018-001: Unduplicated Pupil Count (40000)**

**Criteria:** Supplemental and concentration grant amounts are calculated based on the percentage of "unduplicated pupils" enrolled in the LEA on Census Day (first Wednesday in October). The percentage equals:

- Unduplicated count of pupils who (1) are English learners, (2) meet income or categorical eligibility requirements for free or reduced-price meals under the National School Lunch Program, or (3) are foster youth. "Unduplicated count" means that each pupil is counted only once even if the pupil meets more than one of these criteria (*EC* sections 2574(b)(2) and 42238.02(b)(1)).
- Divided by total enrollment in the LEA (*EC* sections 2574(b)(1) and 42238.02(b)(5)). All pupil counts are based on Fall 1 certified enrollment reported in the CALPADS as of Census Day.

**Condition:** During our testing of the free and reduced price meal eligible students reported in the CALPADS 1.17 and 1.18 reports, we noted that one student that was reported as qualifying for free or reduced priced meals did not respond to the income verification.

**Questioned Cost:** \$211. The amount was calculated using the CDE audit penalty calculator.

**Context:** We noted an error in one of the four schools we tested, for a total of one exception out of a sample size of 51.

**Cause:** We recognize that the District makes every attempt to comply with regulations; however, this error appears to be an isolated instance of human oversight.

**Effect:** The unduplicated pupil counts in the CALPADS 1.17 and 1.18 reports should be adjusted for the following change:

<u>School Site</u>	<u>CALPADS Reported</u>	Adjusted based on	<u>Adjusted Total</u>
		<u>eligibility</u>	
		<u>FRPM Eligibility</u>	
Frank Vessels Elementary	691	(1)	690
Agregate of remaining school sites	1,051	-	1,051
District-wide	1,742	(1)	1,741

The enrollment count of 3,957 was not impacted as a result of the procedures performed.

**Recommendation:** We recommend that the District implement a review procedure of the CALPADS information prior to the reports submission to the California Department of Education.

**Views of Responsible Officials:** The District has placed into action a process and procedures that will ensure accuracy of unduplicated counts into CALPADS prior to the reports submission to the California Department of Education.

**CYPRESS SCHOOL DISTRICT**  
*Summary Schedule of Prior Audit Findings*  
*For the Fiscal Year Ended June 30, 2018*

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

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To the Board of Trustees  
Cypress School District  
Cypress, California

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

However, during our audit we noted matters that are an opportunity for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated November 26, 2018 on the financial statements of Cypress School District.

#### **MAINTENANCE WAREHOUSE INVENTORY**

**Observation:** Through inquiry we determined the District does not perform an inventory of the maintenance warehouse. This control weakness could lead to the possibility that District assets are lost without existence of an audit trail.

**Recommendation:** We recommend the District put in place procedures to ensure that an annual inventory of warehouse equipment is completed.

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

Murrieta, California  
November 26, 2018