

SOUTHERN KERN UNIFIED SCHOOL DISTRICT

KERN COUNTY
ROSAMOND, CALIFORNIA

ANNUAL FINANCIAL STATEMENTS
WITH REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANT

JUNE 30, 2018

JLG
Jeanette L. Garcia & Associates
CERTIFIED PUBLIC ACCOUNTANT

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Financial Section



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INDEPENDENT AUDITOR'S REPORT

Jeanette L. Garcia,
CPA

To the Board of Trustees
Southern Kern Unified School District
Rosamond, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Southern Kern Unified School District, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Southern Kern Unified School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Member:

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

American
Institute of
Certified Public
Accountants

Opinions

California
Society of
Certified Public
Accountants

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

Emphasis of Matter

Going Concern

The accompanying financial statements have been prepared assuming that Southern Kern Unified School District will continue as a going concern. As described in Note 19 to the financial statements, the District has filed two negative certifications with the Kern County Office of Education indicating that they will not be able to meet their financial obligations. Management's plans with regards to these matters are also described in Note 19 to the financial statements. The financial statements do not include any adjustments that might result from the outcomes of this uncertainty.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 10, General Fund Budgetary Comparison Schedule on page 47, Schedule of Changes in the District's Total OPEB Liability and Related Ratios on page 48 and Schedules of the District's Proportionate Share of the Net Pension Liability and Contributions on pages 49 and 50 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 Southern Kern Unified School District's basic financial statements. The combining and individual nonmajor fund financial statements and schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying other supplemental information is presented for purposes of additional analysis as required by the *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, other supplementary information and schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) 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 combining and individual nonmajor fund financial statements, other supplementary information and schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2018, on our consideration of the Southern Kern Unified School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Southern Kern Unified School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Southern Kern Unified School District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Jeanette L Garcia + Associates". The signature is written in a cursive, flowing style.

San Bernardino, California
December 17, 2018

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION & ANALYSIS
For the Fiscal Year Ended
June 30, 2018

INTRODUCTION

The Management's Discussion and Analysis of Southern Kern Unified School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2018. The intent of the analysis is to look at the District's financial performance as a whole; readers should also review the auditor's letter, notes to the basic financial statements and the basic government-wide financial statements to enhance their understanding of the District's financial performance.

USING THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

- This comprehensive annual financial report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the Southern Kern Unified School District as a whole, and then proceed to provide an increasingly detailed look at specific financial activities.
- The "Statement of Net Position" and "Statement of Activities" provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. "Fund Financial Statements" provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's major funds with all special revenue funds and other non-major funds presented in total.
- The major funds for Southern Kern Unified School District are the General Fund, Building Fund and the Bond Interest and Redemption Fund.
- The Management's Discussion and Analysis is provided to assist our citizens, taxpayers and investors in reviewing the District's finances.

FINANCIAL HIGHLIGHTS

- The Southern Kern Unified School District's Government-Wide Statement of Net Position shows Total Net Position of \$(41,970,324), the result of assets and deferred outflows of resources of \$82,463,155, less liabilities and deferred inflows of resources of \$124,433,479.
- The District implemented GASB Statement No. 68, which requires the District to report its proportionate share of the Net Pension Liabilities of CalPERS and CalSTRS. At June 30, 2018, the District's proportionate share of the Net Pension Liabilities was \$40,246,563.
- The District implemented GASB Statement No. 75, which requires the District to report the total OPEB Liability as determined by an actuarial study. At June 30, 2018, the Total OPEB Liability was \$18,248,988.
- General revenues accounted for \$38,034,389 in revenue or 81% of all revenues. Program specific revenues in the form of charges for services, grants and contributions accounted for \$9,020,612 or 19% of total revenues of \$47,055,001.
- The District had \$55,960,417 in expenses related to governmental activities; only \$9,020,612 of these expenses were offset by program specific charges for services, grants and contributions. General revenues (primarily state LCFF sources and property taxes) of \$38,034,389 provided a change in Net Position of \$(8,905,416).
- The General Fund reported a negative fund balance of \$3,451,889.

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION & ANALYSIS
For the Fiscal Year Ended
June 30, 2018

REPORTING THE DISTRICT AS A WHOLE

▪ THE STATEMENT OF NET POSITION AND STATEMENT OF ACTIVITIES

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of the year's activities?" "The Statement of Net Position" and "The Statement of Activities" report information about the District as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector corporations. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

These two statements report the District's net position and changes in it. The change in net position provides the reader a tool to assist in determining whether the District's financial health is improving or deteriorating. However, the Southern Kern Unified School District's goal is to provide services to our students, not to generate profits as commercial entities do. The reader will need to consider other non-financial factors as well as factors such as property tax base, current property tax laws, student enrollment growth and facility conditions in arriving at their conclusion regarding the overall health of the District.

In the "Statement of Net Position" and the "Statement of Activities," the District is divided into two distinct kinds of activities:

- Governmental Activities – Most of the District's programs and services are reported here, including instruction, pupil services including transportation and food services, administration, plant services, facilities acquisition and construction, interest on the long-term debt and other services.
- Business-Type Activities – These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. Southern Kern Unified School District does not have any of these types of activities at this time.

▪ FUND FINANCIAL STATEMENTS

The fund financial statements provide detailed information about the most significant funds, not the District as a whole. Some funds are required to be established by State statute, while many other funds are established by the District to help manage money for particular purposes and compliance with various grant provisions.

▪ GOVERNMENTAL FUNDS

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting. Governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or less financial resources available to spend in the near future to finance the District's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the financial statements. Governmental funds include most of the primary funds of the District.

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION & ANALYSIS
For the Fiscal Year Ended
June 30, 2018

▪ FIDUCIARY FUNDS

Fiduciary funds are used to account for resources held for the benefit of parties outside the governmental entity. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs. The District uses an agency fund to account for resources held for student activities and groups. These funds include Associated Student Body funds.

The Southern Kern Unified School District is the trustee, or fiduciary, for its student activity funds. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Position. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. The Southern Kern Unified School District is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

▪ NOTES TO THE FINANCIAL STATEMENTS

The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements.

▪ THE DISTRICT AS A WHOLE

The "Statement of Net Position" provides the perspective of the District as a whole.

Table 1 provides a summary of the District's net position for fiscal years 2017-18 and 2016-17.

Table 1 - Net Position

	Governmental Activities		%
	2018	2017*	
Current and Other Assets	\$ 4,912,150	\$ 10,846,248	(54.7)
Capital Assets	66,791,327	57,510,202	16.1
Total Assets	<u>71,703,477</u>	<u>68,356,450</u>	4.9
Deferred Outflows of Resources	<u>10,759,678</u>	<u>9,087,536</u>	18.4
Current Liabilities	5,387,245	3,780,021	42.5
Long-Term Debt	<u>117,761,963</u>	<u>104,076,778</u>	13.1
Total Liabilities	<u>123,149,208</u>	<u>107,856,799</u>	14.2
Deferred Inflows of Resources	<u>1,284,271</u>	<u>1,957,295</u>	(34.4)
Net Position			
Net Investment in Capital Assets	7,874,286	3,739,619	110.6
Restricted	4,163,140	6,405,654	(35.0)
Unrestricted	(54,007,750)	(42,515,381)	(27.0)
Total Net Position	<u>\$ (41,970,324)</u>	<u>\$ (32,370,108)</u>	(29.7)

* Restated

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION & ANALYSIS
For the Fiscal Year Ended
June 30, 2018

Table 2 shows the change in net position for fiscal years 2017-18 and 2016-17.

Table 2 - Change in Net Position

	<u>Governmental Activities</u>		%
	<u>2018</u>	<u>2017</u>	
Revenues			
<i>Program Revenues:</i>			
Charges for Services	\$ 395,932	\$ 473,166	(16.3)
Operating Grants and Contributions	8,624,680	7,165,763	20.4
<i>General Revenues:</i>			
Unrestricted State and Federal Sources	27,541,395	27,021,593	1.9
Property Taxes	9,439,104	8,686,450	8.7
Other General Revenue	1,053,890	876,365	20.3
Total Revenues	<u>47,055,001</u>	<u>44,223,337</u>	6.4
Expenses			
Instruction-Related	38,293,558	31,207,964	22.7
Pupil Services	6,449,939	5,836,541	10.5
Administration	2,771,523	1,945,475	42.5
Maintenance and Operations	6,226,896	5,818,045	7.0
Other	2,859,601	2,482,519	15.2
Total Expenses	<u>56,601,517</u>	<u>47,290,544</u>	19.7
Change in Net Position	<u>\$ (9,546,516)</u>	<u>\$ (3,067,207)</u>	(211.2)

▪ GOVERNMENTAL ACTIVITIES

Charges for services, operating grants and contributions made up 19% of revenues for governmental activities. General revenues not restricted to specific programs made up 81% of the total revenues available.

Instruction-related activities made up 68% of expenses. Pupil services including home-to-school transportation and food services made up 11%. Administration including data processing made up 5%. Maintenance and operations including facility acquisition and construction made up 11%. Other miscellaneous made up the remaining 5%.

“Statement of Activities” (Exhibit B) shows the costs of program services and the charges for services and grants offsetting those services.

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION & ANALYSIS
For the Fiscal Year Ended
June 30, 2018

Table 3 compares the total cost of services and the net cost of services between 2017-18 and 2016-17. The net cost of these services is the cost supported by tax revenue and unrestricted state entitlements.

Table 3 - Total and Net Cost of Governmental Activity

	Total Cost			
	2018	%	2017	%
Instruction	\$ 38,293,558	68	\$ 31,207,964	66
Pupil Services	6,449,939	11	5,836,541	13
Administration	2,771,523	5	1,945,475	4
Maintenance and Operations	6,226,896	11	5,818,045	12
Other	2,859,601	5	2,482,519	5
Total	\$ 56,601,517	100	\$ 47,290,544	100

	Net Cost			
	2018	%	2017	%
Instruction	\$ 33,489,216	70	\$ 26,647,008	67
Pupil Services	3,564,966	8	3,174,537	8
Administration	1,847,422	4	1,945,383	5
Maintenance and Operations	6,219,919	13	5,800,450	15
Other	2,459,382	5	2,084,237	5
Total	\$ 47,580,905	100	\$ 39,651,615	100

GENERAL FUND BUDGET INFORMATION

The District's budget is prepared in accordance with California law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund.

In April of each year, a Preliminary Budget is presented to the Board. Time is allocated during the Board meeting for public input and Board direction. A Tentative Budget is presented in late May, which reflects the latest known financial information, including the Governor's May Revise of the state budget. The Final Budget is presented for adoption in late June. During the course of the fiscal year, the District revises its budget as it deals with changes in revenues and expenditures. These reports include revisions based on state budget adoption that are normally presented in August if the state has an on-time budget. Adjustments to Actuals are presented in September, First Interim is normally presented in December, and Second Interim is normally presented in March.

▪ **GENERAL FUND BUDGET VARIATIONS**

For the General Fund, actual revenues were \$41,304,313 with original budget estimated at \$37,336,333. The difference of \$39,679,980 was due to conservative budgeting. In addition, the District received one-time funds that were unexpected, as well as enrollment beyond expectations.

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION & ANALYSIS
For the Fiscal Year Ended
June 30, 2018

There are several reasons for expenditure budget revisions. Most notable are any negotiated salary increases approved by the Board of Trustees for District employees. The original budget does not presume negotiated salary increases. Also, any changes in the number of staff and/or staff utilization of health and welfare benefits that vary from the original projections would also require budget revisions.

The implementation of new instructional programs can also affect budget projections. New academically focused programs will impact expenditures in personnel, instructional materials, outside services and supplies.

▪ CAPITAL ASSETS AND DEBT ADMINISTRATION

• CAPITAL ASSETS

At the end of the fiscal year 2017-18, the District had \$66,791,327, invested in land, buildings and improvements, furniture and equipment and work in progress. Table 4 shows fiscal years 2017-18 and 2016-17.

Table 4 - Capital Assets at Year-End
(net of depreciation)

	Governmental Activities	
	2018	2017
Land	\$ 890,449	\$ 890,449
Buildings and Improvements	65,161,000	32,963,643
Furniture and Equipment	739,878	553,450
Work in Progress	-	23,102,660
	\$ 66,791,327	\$ 57,510,202

• DEBT

At June 30, 2018, the Southern Kern Unified School District had \$117,761,963 in debt outstanding. Table 5 summarizes these debts.

Table 5 - Outstanding Debt at Year-End

	Governmental Activities	
	2018	2017*
General Obligation Bonds	\$ 57,987,708	\$ 52,808,059
Bond Premium	929,333	962,524
Total OPEB Liability	18,248,988	17,507,691
Compensated Absences	349,371	345,915
Net Pension Liability	40,246,563	32,452,589
	\$ 117,761,963	\$ 104,076,778

* Restated

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION & ANALYSIS
For the Fiscal Year Ended
June 30, 2018

FOR THE FUTURE

Southern Kern Unified experienced unprecedented growth in enrollment during the 2017-18 school year. To address the sudden and unexpected increase in enrollment, the District had to hire teachers and support staff, which was unplanned and unanticipated. The additional unplanned hiring had an impact across all programs of the District, especially our Special Education services. The District has been working to address overstaffing and overspending throughout the District. Working closely with the County Office of Education, the District has put into action \$2 million in reductions for 2018-19 and will put forth an additional \$2-3 million in general fund reductions effective 2019-20.

The management of SKUSD continues to remain committed to providing the highest quality education while ensuring the financial stability of the District.

▪ CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Arik Avenesyans, Chief Business Officer, Southern Kern Unified School District, (661) 256-5000 Ext. 1125.

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
STATEMENT OF NET POSITION
 JUNE 30, 2018

	<u>GOVERNMENTAL ACTIVITIES</u>
<u>ASSETS</u>	
Cash (Note 2)	\$ 3,154,931
Accounts Receivable (Note 3)	1,757,219
Total Current Assets	<u>4,912,150</u>
Capital Assets: (Note 6)	
Land	890,449
Site Improvements	3,975,610
Buildings	73,378,036
Furniture and Equipment	2,603,947
Less Accumulated Depreciation	(14,056,715)
Total Capital Assets	<u>66,791,327</u>
TOTAL ASSETS	<u>71,703,477</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u> (Note 13)	<u>10,759,678</u>
<u>LIABILITIES</u>	
Accounts Payable and Other Current Liabilities	3,069,224
Current Loans (Note 8)	1,826,359
Unearned Revenue	491,662
Total Current Liabilities	<u>5,387,245</u>
Long-Term Liabilities: (Note 9)	
Portion Due or Payable Within One Year	1,472,052
Portion Due or Payable After One Year	116,289,911
Total Long-Term Liabilities	<u>117,761,963</u>
TOTAL LIABILITIES	<u>123,149,208</u>
<u>DEFERRED INFLOWS OF RESOURCES</u> (Note 13)	<u>1,284,271</u>
<u>NET POSITION</u>	
Net Investment in Capital Assets	7,874,286
Restricted for:	
Capital Projects	667,711
Debt Services	2,311,052
Educational Programs	825,155
Other Purposes (Expendable)	343,722
Other Purposes (Nonexpendable)	15,500
Unrestricted	<u>(54,007,750)</u>
TOTAL NET POSITION	<u>\$ (41,970,324)</u>

The Notes to Financial Statements are an integral part of this statement.

EXHIBIT B

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
 FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Activities	Expenses	Program Revenues			Net (Expenses)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenues and Changes in Net Position
					Governmental Activities
Governmental:					
Instruction	\$ 31,027,229	\$ 256,988	\$ 4,194,117	\$ -	\$ (26,576,124)
Instruction-Related Services:					
Supervision of Instruction	164,004	404	9,261	-	(154,339)
Instructional Library, Media and Technology	782,630	-	41,292	-	(741,338)
School Site Administration	6,319,695	26,308	275,972	-	(6,017,415)
Pupil Services:					
Home-to-School Transportation	1,557,760	-	-	-	(1,557,760)
Food Services	2,559,469	55,600	2,363,290	-	(140,579)
All Other Pupil Services	2,332,710	40,284	425,799	-	(1,866,627)
General Administration:					
Data Processing	73	-	-	-	(73)
All Other General Administration	2,771,450	15,551	908,550	-	(1,847,349)
Plant Services	6,226,896	797	6,180	-	(6,219,919)
Ancillary Services	929,419	-	400,219	-	(529,200)
Interest on Long-Term Debt	1,654,957	-	-	-	(1,654,957)
Other Outgo	275,225	-	-	-	(275,225)
Total Governmental Activities	\$ 56,601,517	\$ 395,932	\$ 8,624,680	\$ -	(47,580,905)
General Revenues:					
Taxes:					
Property Taxes, levied for general purposes					6,425,573
Property Taxes, levied for debt service					3,012,063
Property Taxes, levied for other specific purposes					1,468
Federal and State Aid not restricted to specific purposes					27,541,395
Interest and Investment Earnings					70,751
Miscellaneous					870,456
Special and extraordinary items					112,683
Total General Revenues					38,034,389
Change in Net Position					(9,546,516)
Net Position - July 1, 2017, as Previously Reported					(22,275,734)
Adjustment for Restatement (Note 17)					(10,148,074)
Net Position - July 1, 2017, as Restated					(32,423,808)
Net Position - June 30, 2018					\$ (41,970,324)

The Notes to Financial Statements are an integral part of this statement.

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
 JUNE 30, 2018

	GENERAL FUND	BUILDING FUND	BOND INTEREST AND REDEMPTION FUND	ALL OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<u>ASSETS</u>					
Cash (Note 2)					
Cash in County Treasury	\$ 664,522	\$ -	\$ 2,311,052	\$ 163,857	\$ 3,139,431
Cash in Revolving Fund	15,500	-	-	-	15,500
Accounts Receivable (Note 3)	1,391,227	2,481	-	336,100	1,729,808
Due from Grantor Government (Note 3)	27,411	-	-	-	27,411
Due from Other Funds (Note 4A)	23,600	894,572	-	237,579	1,155,751
TOTAL ASSETS	\$ 2,122,260	\$ 897,053	\$ 2,311,052	\$ 737,536	\$ 6,067,901
<u>LIABILITIES AND FUND BALANCES</u>					
Liabilities					
Accounts Payable	\$ 2,129,219	\$ 393,300	\$ -	\$ 203,112	\$ 2,725,631
Due to Other Funds (Note 4A)	1,132,151	-	-	23,600	1,155,751
Current Loan (Note 8)	1,826,359	-	-	-	1,826,359
Unearned Revenue	486,420	-	-	5,242	491,662
Total Liabilities	5,574,149	393,300	-	231,954	6,199,403
Fund Balances (Note 5)					
Nonspendable	15,500	-	-	-	15,500
Restricted	825,155	-	-	250,084	1,075,239
Assigned	2,098	503,753	2,311,052	255,498	3,072,401
Unassigned	(4,294,642)	-	-	-	(4,294,642)
Total Fund Balances	(3,451,889)	503,753	2,311,052	505,582	(131,502)
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,122,260	\$ 897,053	\$ 2,311,052	\$ 737,536	\$ 6,067,901

The Notes to Financial Statements are an integral part of this statement.

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
 JUNE 30, 2018

Total Fund Balances - Governmental Funds \$ (131,502)

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

In governmental funds, only current assets are reported. In the statement of net position, all assets are reported, including capital assets and accumulated depreciation. The cost of the assets is \$80,848,042 and the accumulated depreciation is \$14,056,715. 66,791,327

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 at year-end consist of:

General Obligation Bonds	\$	58,917,041	
Total OPEB Liability		18,248,988	
Compensated Absences		349,371	
Net Pension Liability		<u>40,246,563</u>	(117,761,963)

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

Deferred outflows of resources related to pensions	10,759,678
Deferred inflows of resources related to pensions	(1,284,271)

In the governmental funds, interest expense is recorded when paid. In the government-wide statements, interest is recorded when it is incurred. (343,593)

Total Net Position - Governmental Activities \$ (41,970,324)

The Notes to Financial Statements are an integral part of this statement.

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	GENERAL FUND	BUILDING FUND	BOND INTEREST AND REDEMPTION FUND	ALL GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES					
Local Control Funding Formula Sources:					
State Apportionments	\$ 21,584,254	\$ -	\$ -	\$ -	\$ 21,584,254
Education Protection Account Funds	4,684,083	-	-	-	4,684,083
Local Sources	6,425,575	-	-	-	6,425,575
LCFF Transfers	(1,208)	-	-	-	(1,208)
Total LCFF Sources	32,692,704	-	-	-	32,692,704
Federal Revenues	2,160,076	-	-	2,223,630	4,383,706
Other State Revenues	4,146,151	-	27,466	(214,422)	3,959,195
Other Local Revenues	2,305,413	22,932	3,014,307	420,872	5,763,524
Total Revenues	41,304,344	22,932	3,041,773	2,430,080	46,799,129
EXPENDITURES					
Instruction	26,912,921	-	-	85,493	26,998,414
Instruction-Related Services:					
Supervision of Instruction	141,191	-	-	-	141,191
Instructional Library, Media and Technology	675,491	-	-	-	675,491
School Site Administration	4,940,724	-	-	1,917	4,942,641
Pupil Services:					
Home-to-School Transportation	1,602,703	-	-	-	1,602,703
Food Services	-	-	-	2,404,790	2,404,790
All Other Pupil Services	2,013,598	-	-	-	2,013,598
General Administration:					
Data Processing	71	-	-	-	71
All Other General Administration	2,437,835	-	-	9,980	2,447,815
Plant Services	5,559,552	-	-	29,839	5,589,391
Facilities Acquisition and Construction	4,464	9,578,626	-	453,735	10,036,825
Ancillary Services	795,970	-	-	-	795,970
Other Outgo	-	275,225	-	-	275,225
Debt Service:					
Principal	-	-	1,739,550	-	1,739,550
Interest	-	-	1,654,339	-	1,654,339
Total Expenditures	45,084,520	9,853,851	3,393,889	2,985,754	61,318,014
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(3,780,176)	(9,830,919)	(352,116)	(555,674)	(14,518,885)
OTHER FINANCING SOURCES (USES)					
Interfund Transfers In (Note 4B)	13,361	128,862	-	755,611	897,834
Interfund Transfers Out (Note 4B)	(883,612)	(861)	-	(13,361)	(897,834)
Proceeds from Sale of Bonds	-	6,919,199	-	-	6,919,199
Other Sources	-	75,225	37,458	-	112,683
Total Other Financing Sources (Uses)	(870,251)	7,122,425	37,458	742,250	7,031,882
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES (USES)	(4,650,427)	(2,708,494)	(314,658)	186,576	(7,487,003)
FUND BALANCES - JULY 1, 2017, as Previously Reported	1,249,738	3,212,247	2,625,710	321,506	7,409,201
Adjustment for Restatement (Note 16)	(51,200)	-	-	(2,500)	(53,700)
FUND BALANCES - JULY 1, 2017, as Restated	1,198,538	3,212,247	2,625,710	319,006	7,355,501
FUND BALANCES - JUNE 30, 2018	\$ (3,451,889)	\$ 503,753	\$ 2,311,052	\$ 505,582	\$ (131,502)

The Notes to Financial Statements are an integral part of this statement.

SOUTHERN KERN UNIFIED 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

Total Net Change in Fund Balances - Governmental Funds	\$ (7,487,003)
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported in the 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. This is the amount by which capital outlays of \$10,291,483 exceed depreciation expense of \$1,120,358 in the period.	9,171,125
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	1,772,741
In governmental funds, compensated absences are measured by the amounts paid during the period. In the government-wide statements, they are measured by the amounts earned.	(3,456)
In government funds, pension costs are recognized when employer contributions are made. In the statement of activities, pension costs are recognized on the accrual basis.	(5,448,808)
In the governmental funds, interest is recorded when it is paid. In the government-wide statements, interest is recorded when it is incurred.	(618)
In governmental funds, proceeds from debt are recognized as Other Financing Sources. In the government-wide statements, proceeds from debt are reported as increases to liabilities.	(6,919,199)
The District received a grant to be used toward the purchase of a new capital asset (bus) which is reported as an increase to capital assets.	110,000
In governmental funds, OPEB expenses are recognized when employer OPEB contributions are made. In the statement of activities, OPEB expenses are recognized on the accrual basis.	(741,297)
Adjustment for Rounding	<u>(1)</u>
Change in Net Position of Governmental Activities	<u><u>\$ (9,546,516)</u></u>

The Notes to Financial Statements are an integral part of this statement.

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
 JUNE 30, 2018

	<u>AGENCY FUNDS</u>
<u>ASSETS</u>	
Cash (Note 2)	
Cash on Hand and in Banks	\$ 233,539
TOTAL ASSETS	<u>\$ 233,539</u>
<u>LIABILITIES</u>	
Accounts Payable	\$ -
Due to Student Groups	233,539
TOTAL LIABILITIES	<u>\$ 233,539</u>

The Notes to Financial Statements are an integral part of this statement.

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Southern Kern Unified School District conform to accounting principles generally accepted in the United States of America as applicable to governments and to general practices within California school districts. The District accounts for its financial transactions in accordance with the policies and procedures of the Department of Education's California School Accounting Manual. The accounting policies of the District conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board and by the American Institute of Certified Public Accountants. The following is a summary of the significant accounting policies:

Fund Accounting

The accounts of the District are organized on the basis of funds or account groups, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance or retained earnings, revenues and expenditures or expenses, as appropriate. District resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The District accounts are organized into major, nonmajor, and fiduciary funds.

Major Governmental Funds:

General 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.

Building Fund is used to account for the acquisition of major governmental capital facilities and buildings from the sale of bond proceeds.

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

Nonmajor Governmental Funds:

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted or committed for purposes other than debt service and capital outlay and that compose a substantial portion of the fund's resources. The District maintains four nonmajor special revenue funds.

- Adult Fund is used to account for resources dedicated to adult education programs maintained by the District.
- Cafeteria Fund is used to account for revenues received and expenditures made to operate the District's food service operations.
- Deferred Maintenance Fund is used for the purpose of major repair of District property. Due to the implementation of GASB 54, the Deferred Maintenance Fund has been consolidated with the General Fund for reporting purposes.
- Special Reserve Fund - Other than Capital Outlay is used to set aside funds to protect the District from unforeseen economic events. Due to the implementation of GASB 54, the Special Reserve Fund has been consolidated with the General Fund for reporting purposes.

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

Capital Projects Funds are used to account for the acquisition and/or construction of all major governmental general fixed assets. The District maintains three nonmajor capital projects funds.

- Capital Facilities Fund is used to account for resources received from developer fees.
- County School Facilities Fund was established for the purpose of construction and/or modernization of school facilities as authorized by SB50 and Proposition 1A.
- Special Reserve Fund is used to account for revenues received and expenditures made in connection with the maintenance of District property.

Fiduciary Funds:

Agency Funds are used to account for assets of others for which the District acts as an agent. The District maintains an agency fund for each school that operates an associated student body.

Basis of Presentation

Government-Wide Financial Statements:

The government-wide financial statements (i.e., the statement of net position and the statement of activities report information on all of the nonfiduciary activities of the district and its component units.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund and fiduciary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities.

Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the statement of activities. Program revenues include charges paid by the recipients of goods or services offered by a program, as well as grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District, with certain exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

Fund Financial Statements:

Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major governmental fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

The accounting and financial treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances for these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other uses) in net current assets.

Fiduciary funds are reported using the economic resources measurement focus.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures, or expenses, are recognized in the accounts and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds use the accrual basis of accounting.

Revenues – exchange and non-exchange transactions:

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. “Available” means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, “available” means collectible within the current period or within 60 days after year-end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, and entitlements. Under the accrual basis, revenue from property taxes is recognized in the fiscal year in which the taxes are received. Revenue from grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are to be used or the fiscal year when use is first permitted; matching requirements, in which the district must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Unearned Revenue:

Unearned revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as unearned revenue. On governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have also been recorded as unearned revenue.

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

Expenses/Expenditures:

On the accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

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

Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds. By State law, the District's Board of Trustees must adopt a final budget no later than July 1. A public hearing must be conducted to receive comments prior to adoption. The District's Board of Trustees satisfied these requirements.

These budgets are revised by the District's Board of Trustees and District Superintendent during the year to give consideration to unanticipated income and expenditures. The final revised budget that is presented in the financial statements consists of the original Board approved documents plus all revisions through June 30, 2018.

Formal budgetary integration was employed as a management control device during the year for all budgeted funds. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account.

Accounting Estimates

The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the 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 (expenses) during the reporting period. Actual results could differ from those estimates.

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 outstanding encumbrances were liquidated at June 30.

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

Inventory

Inventory in the General Fund consists mainly of expendable supplies held for consumption. Inventories are recorded using the consumption method, in that inventory acquisitions are initially recorded in inventory (asset) accounts, and the cost is recorded as an expenditure at the time individual inventory items are requisitioned. Inventories are valued on the weighted average method. Reported inventories are equally offset by a fund balance reserve which indicates that these amounts are not "available for appropriation and expenditure" even though they are a component of net current assets.

Capital Assets

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Life in Years</u>
Site Improvements	20-30
Building and Improvements	25-30
Furniture and Equipment	5-10
Vehicles	10

Interfund Balances

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

Compensated Absences

All vacation pay plus related payroll taxes is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

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

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. Bonds payable are reported as net of applicable bond premium or discount.

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

In the fund financial statements, governmental funds recognize bond premiums and discounts as well as bond issuance costs, during the current period. The face amount of the debt issued, premiums, or discounts is reported as other financing sources/uses.

Net Position in the Government-Wide Financial Statements

In the government-wide Statement of Net Position, the net position amount can be classified and displayed in three components:

- Net Investment in Capital Assets – This consists of capital assets net of accumulated depreciation and reduced by any long-term borrowings that are attributable to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position.
- Restricted – This consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.
- Unrestricted – This consists of the net amount of the assets, deferred outflows of resources, liabilities and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted resources are available.

Fund Balance Reserves and Designations

In the governmental funds Balance Sheet, fund balance amounts are reported within the fund balance categories below:

- Nonspendable – This is fund balance associated with revolving cash funds, inventories and prepaids.
- Restricted – This includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
- Committed – This includes amounts that can be used only for the specific purposes determined by a formal action of the Board of Trustees (the District’s highest level of decision-making authority).
- Assigned – These funds are intended to be used by the government (District) for specific purposes but do not meet the criteria to be classified as restricted or committed.
- Unassigned – This is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications.

When fund balance resources are available for a specific purpose in multiple classifications, the District would use the most restrictive funds first.

Deferred Outflows and Deferred Inflows of Resources

Included in the Statement of Net Position are separate sections for deferred outflows and deferred inflows of resources.

Deferred outflow of resources is a consumption of net assets or net position that is applicable to a future reporting period. Deferred inflow of resources is an acquisition of net assets or net position that is applicable to a future reporting period. Deferred outflows and deferred inflows of resources have been reported as a result of recording the net pension liabilities and pension expense.

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the CalPERS Schools Pool Cost-Sharing Multiple-Employer Defined Benefit Pension Plan (CalPERS Plan) and CalSTRS Schools Pool Cost-Sharing Multiple-Employer Defined Pension Pension Plan (CalSTRS Plan) and additions to/deductions from the CalPERS Plan and CalSTRS Plan's fiduciary net positions have been determined on the same basis as they are reported by the CalPERS Financial Office and CalSTRS Financial Office. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined time frames. For this report, the following time frames are used:

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Measurement Period	July 1, 2016 to June 30, 2017

Local Control Funding Formula/Property Tax

As a result of the 2013-14 state budget package, the District's state apportionments are based on a new Local Control Funding Formula (LCFF). The LCFF creates base, supplemental, and concentration grants (by grade span) in place of most previously existing K-12 funding streams, including revenue limits and most state categorical programs. Full implementation of LCFF is estimated to be in fiscal year 2018-19. Until then, the District will receive approximately the same level of funding as in 2012-13, plus an additional amount each year to bridge the gap between current year funding and the LCFF target levels.

The County is responsible for assessing, collecting and apportioning property taxes. Taxes are levied for each fiscal year on taxable real and personal property in the county. The levy is based on the assessed values as of the preceding March 1, which is also the lien date. Property taxes on the secured roll are due on November 1 and February 1, and taxes become delinquent after December 10 and April 10, respectively. Property taxes on the unsecured roll are due on the lien date (March 1), and become delinquent if unpaid by August 31.

Secured property taxes are recorded as revenue when apportioned, in the fiscal year of the levy. The County apportions secured property tax revenue in accordance with the alternate method of distributions prescribed by Section 4705 of the California *Revenue and Taxation Code*. This alternate method provides for crediting each applicable fund with its total secured taxes upon completion of the secured tax roll – approximately October 1 of each year.

The County Auditor reports the amount of the District's allocated property tax revenue to the California Department of Education. Property taxes are recorded as local LCFF sources by the District.

The California Department of Education reduces the District's entitlement by the District's local property tax revenue. The balance is paid from the State General Fund, and is known as the State Apportionment.

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2018

New Accounting Pronouncements

The following Governmental Accounting Standards Board (GASB) statements are effective for the FY 2017-18 financial statement audits:

- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This Statement is effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged.

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). 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.

- GASB Statement No. 81, *Irrevocable Split-Interest Agreements*. The Statement is effective for periods beginning after December 15, 2016, and should be applied retroactively. Earlier application is encouraged.
- GASB Statement No. 85, *Omnibus 2017*. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.
- GASB Statement No. 86, *Certain Debt Extinguishment Issues*. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.

2. CASH AND DEPOSITS

Cash at June 30, 2018, consisted of the following:

	<u>Governmental Funds</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Pooled Funds:			
Cash in County Treasury	\$ 3,139,431	\$ -	\$ 3,139,431
Deposits:			
Cash on Hand and in Banks	-	233,539	233,539
Cash in Revolving Fund	<u>15,500</u>	<u>-</u>	<u>15,500</u>
Total	<u>\$ 3,154,931</u>	<u>\$ 233,539</u>	<u>\$ 3,388,470</u>

In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the Kern County Treasury as part of the investment pool which has a balance on June 30, 2018 of \$3,380,522,966. The County pools these funds with those of other Districts in the County and invests the cash. These pooled funds are carried at cost which approximates market value. The District is considered to be an involuntary participant in the external investment pool. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
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The fair market value of this pool as of June 30, 2018, as provided by the pool sponsor, was \$3,342,578,762. The County is required by Government Code Section 53635 pursuant to section 53601 to invest in time deposits, U.S. government securities, state registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Treasury and in Money Market Mutual Fund U.S. Treasury Fund obligations. The District maintains an investment with the Kern County Investment Pool with a fair value of approximately \$3,104,193 and an amortized book value of \$3,139,431. The average weighted maturity for this pool is 547 days.

The District does not have a formal investment policy that limits cash and investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At June 30, 2018, the District had no significant interest rate risk related to cash and investments held.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. The District does not have a formal investment policy that limits its investment choices other than the limitations of State law.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District does not place limits on the amount it may invest in any one issuer. At June 30, 2018, the District had no concentration of credit risk.

Custodial Credit Risk – Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. However, the California Government code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% 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% of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105% of the secured deposits.

Cash balances held in banks are insured up to \$250,000 by the Federal Depository Insurance Corporation (FDIC). All cash held by the financial institutions is fully insured or collateralized.

The County is authorized to deposit cash and invest excess funds by California Government Code Section 53648 et seq. The funds maintained by the County are either secured by federal depository insurance or are collateralized.

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2018

3. ACCOUNTS RECEIVABLE

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

	GENERAL FUND	BUILDING FUND	ALL OTHER GOVERNMENTAL FUNDS	TOTAL
Accounts Receivable				
Federal Sources				
Categorical Aid Programs	\$ 730,015	\$ -	\$ -	\$ 730,015
Child Nutrition Program	-	-	254,927	254,927
State Sources				
Categorical Aid Programs	40,950	-	-	40,950
Child Nutrition Program	353,294	-	17,356	370,650
Local Sources				
Local Government	248,191	-	60,452	308,643
Interest	7,388	2,481	3,365	13,234
Other	11,389	-	-	11,389
Total Accounts Receivable	<u>1,391,227</u>	<u>2,481</u>	<u>336,100</u>	<u>1,729,808</u>
Due from Grantor Government				
Federal Sources				
Categorical Aid Programs	27,411	-	-	27,411
Total Due from Grantor Government	<u>27,411</u>	<u>-</u>	<u>-</u>	<u>27,411</u>
Total Receivables	<u>\$ 1,418,638</u>	<u>\$ 2,481</u>	<u>\$ 336,100</u>	<u>\$ 1,757,219</u>

4. INTERFUND TRANSACTIONS

Interfund transactions are reported as either loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables, as appropriate, and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers among governmental funds are netted as part of the reconciliation to the government-wide financial statements.

A. Interfund Receivables/Payables (Due To/Due From)

Individual fund interfund receivable and payable balances at June 30, 2018, are as follows:

DUE FROM	DUE TO			TOTAL
	GENERAL FUND	BUILDING FUND	ALL OTHER GOVERNMENTAL FUNDS	
General Fund	\$ -	\$ 894,572	\$ 237,579	\$ 1,132,151
All Other Governmental Funds	23,600	-	-	23,600
Total	<u>\$ 23,600</u>	<u>\$ 894,572</u>	<u>\$ 237,579</u>	<u>\$ 1,155,751</u>

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2018

B. Interfund Transfers

Interfund transfers consist of operating transfers from funds receiving resources to funds through which the resources are to be expended. Interfund transfers for the 2017-18 fiscal year were as follows:

TRANSFERS FROM	TRANSFERS TO			
	GENERAL FUND	BUILDING FUND	ALL OTHER GOVERNMENTAL FUNDS	TOTAL
General Fund	\$ -	\$ 128,862	\$ 755,611	\$ 884,473
Building Fund	-	861	-	861
All Other Governmental Funds	13,361	-	-	13,361
Total	\$ 13,361	\$ 129,723	\$ 755,611	\$ 898,695

5. FUND BALANCE

Ending fund balance in the governmental funds is composed of the following elements:

	GENERAL FUND	BUILDING FUND	BOND INTEREST AND REDEMPTION FUND	ALL OTHER GOVERNMENTAL FUNDS	TOTAL
Nonspendable:					
Revolving Fund	\$ 15,500	\$ -	\$ -	\$ -	\$ 15,500
Restricted for:					
Legally Restricted Balances	825,155	-	-	250,084	1,075,239
Assigned to:					
Other Assignments	2,098	503,753	2,311,052	255,498	3,072,401
Unassigned :					
Undesignated	(4,294,642)	-	-	-	(4,294,642)
Total Fund Balances	\$ (3,451,889)	\$ 503,753	\$ 2,311,052	\$ 505,582	\$ (131,502)

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
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6. CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2018, is shown below:

PRIMARY GOVERNMENT				
	Balance July 1, 2017	Additions	Adjustments/ Retirements	Balance June 30, 2018
Land	\$ 890,449	\$ -	\$ -	\$ 890,449
Site Improvements	3,975,610	-	-	3,975,610
Buildings	40,210,552	33,167,484	-	73,378,036
Furniture and Equipment	2,352,288	336,659	85,000	2,603,947
Work in Progress	23,102,660	-	23,102,660	-
	<u>70,531,559</u>	<u>33,504,143</u>	<u>23,187,660</u>	<u>80,848,042</u>
Total at Historical Cost				
Less Accumulated Depreciation for:				
Site Improvements	1,247,737	174,220	-	1,421,957
Buildings	9,974,782	795,907	-	10,770,689
Furniture and Equipment	1,798,838	150,231	85,000	1,864,069
	<u>13,021,357</u>	<u>1,120,358</u>	<u>85,000</u>	<u>14,056,715</u>
Total Accumulated Depreciation				
Governmental Activities Capital Assets, Net	<u>\$ 57,510,202</u>	<u>\$ 32,383,785</u>	<u>\$ 23,102,660</u>	<u>\$ 66,791,327</u>

Depreciation expense was charged to governmental activities as follows:

Governmental Activities:	
Instruction	\$ 627,433
Supervision and Administration	3,238
Instructional Library, Media and Technology	16,289
School Site Administration	115,968
Home-to-School Transportation	38,647
Food Services	58,414
All Other Pupil Services	47,198
Ancillary Services	19,186
All Other General Administration	59,023
Centralized Data Processing	2
Plant Services	134,960
	<u>1,120,358</u>
Total Depreciation Expense	<u>\$ 1,120,358</u>

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2018

7. OPERATING LEASES

The District has entered into agreements for portables under operating leases. At June 30, 2018, the future minimum lease payments for the agreements are as follows:

Year Ending June 30	Lease Payments
2019	\$ 100,000
2020	82,400
2021	82,400
2022	82,400
Total	\$ 347,200

8. CURRENT LOAN

As of June 30, 2018, the District has unpaid temporary cash loan from the Kern County Superintendent of Schools in the total amount of \$1,826,359.

9. LONG-TERM DEBT

A schedule of changes in long-term debt for the fiscal year ended June 30, 2018, is shown below:

	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018	Amounts Due Within One Year
General Obligation Bonds	\$ 52,808,059	\$ 6,919,199	\$ 1,739,550	\$ 57,987,708	\$ 1,438,861
Bond Premium	962,524	-	33,191	929,333	33,191
Total OPEB Liability*	17,507,691	741,297	-	18,248,988	-
Compensated Absences	345,915	3,456	-	349,371	-
Net Pension Liability	32,452,589	7,793,974	-	40,246,563	-
Total	\$ 104,076,778	\$ 15,457,926	\$ 1,772,741	\$ 117,761,963	\$ 1,472,052

* Restated

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2018

10. BONDED DEBT

The outstanding general obligation bonded debt of the District at June 30, 2018, is the following:

Bond	Date of Bond	Year of Maturity	Rate of Interest	Amount of Original Issue	Bonds Outstanding July 1, 2017	Issued During Year	Matured During Year	Bonds Outstanding June 30, 2018
Series 2006C	11/9/2006	2032	3.45-4.68%	\$ 3,853,288	\$ 1,383,288	\$ -	\$ -	\$ 1,383,288
Series 2008A	12/18/2008	2034	3.00-6.80%	4,056,633	1,651,633	-	125,000	1,526,633
Series 2010B	5/27/2010	2050	2.00-6.95%	6,960,719	6,140,719	-	50,000	6,090,719
2012 Series A	6/28/2012	2024	2.00-3.00%	2,185,000	1,635,000	-	160,000	1,475,000
2012 Series B	6/28/2012	2032	1.52-4.50%	3,819,839	3,291,789	-	154,550	3,137,239
2008 Series 2014A	2/6/2014	2024	3.15%	3,000,000	2,475,000	-	290,000	2,185,000
2014 Series A Refunding	11/4/2014	2030	2.00-3.25%	3,795,000	3,335,000	-	245,000	3,090,000
2015 Series A	11/4/2014	2040	3.00-5.00%	10,000,000	9,860,000	-	50,000	9,810,000
2016 Refunding	4/27/2016	2032	2.00-4.00%	4,685,000	4,640,000	-	230,000	4,410,000
2016 Series B	4/27/2016	2046	2.00-4.04%	18,395,630	18,395,630	-	435,000	17,960,630
2008 Series D	9/20/2017	2042	1.41-4.02%	6,919,199	-	6,919,199	-	6,919,199
Total				\$ 67,670,308	\$ 52,808,059	\$ 6,919,199	\$ 1,739,550	\$ 57,987,708

The annual requirement to amortize the Series 2006C general obligation bonds payable, outstanding at June 30, 2018, is as follows:

Year Ending June 30	Principal	Interest	Total
2019	\$ -	\$ -	\$ -
2020	-	-	-
2021	-	-	-
2022	-	-	-
2023	-	-	-
2024-28	460,967	954,033	1,415,000
2029-32	922,321	2,747,679	3,670,000
Total	\$ 1,383,288	\$ 3,701,712	\$ 5,085,000

The annual requirement to amortize the Series 2008A general obligation bonds payable, outstanding at June 30, 2018, is as follows:

Year Ending June 30	Principal	Interest	Total
2019	\$ 155,000	\$ 11,266	\$ 166,266
2020	180,000	3,938	183,938
2021	-	-	-
2022	-	-	-
2023	-	-	-
2024-28	142,974	348,348	491,322
2029-33	699,247	3,811,159	4,510,406
2034	349,412	1,905,588	2,255,000
Total	\$ 1,526,633	\$ 6,080,299	\$ 7,606,932

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The annual requirement to amortize the Series 2010B general obligation bonds payable, outstanding at June 30, 2018, is as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 60,000	\$ 66,050	\$ 126,050
2020	65,000	63,550	128,550
2021	75,000	60,750	135,750
2022	60,000	57,750	117,750
2023	65,000	54,625	119,625
2024-28	470,000	211,250	681,250
2029-33	590,000	62,750	652,750
2034-38	950,828	7,342,300	8,293,128
2039-43	1,678,126	10,938,047	12,616,173
2044-48	1,439,276	14,248,254	15,687,530
2049-50	637,489	8,602,765	9,240,254
Total	<u>\$ 6,090,719</u>	<u>\$ 41,708,091</u>	<u>\$ 47,798,810</u>

The annual requirement to amortize the 2012 Series A general obligation bonds payable, outstanding at June 30, 2018, is as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 185,000	\$ 39,475	\$ 224,475
2020	210,000	33,550	243,550
2021	230,000	26,950	256,950
2022	260,000	20,250	280,250
2023	280,000	13,150	293,150
2024	310,000	4,650	314,650
Total	<u>\$ 1,475,000</u>	<u>\$ 138,025</u>	<u>\$ 1,613,025</u>

The annual requirement to amortize the 2012 Series B general obligation bonds payable, outstanding at June 30, 2018, is as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 143,861	\$ 138,170	\$ 282,031
2020	145,177	146,854	292,031
2021	145,316	156,715	302,031
2022	139,725	167,306	307,031
2023	137,631	179,400	317,031
2024-28	1,182,037	532,419	1,714,456
2029-32	1,243,492	226,583	1,470,075
Total	<u>\$ 3,137,239</u>	<u>\$ 1,547,447</u>	<u>\$ 4,684,686</u>

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
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The annual requirement to amortize the 2008 Series 2014A general obligation bonds payable, outstanding at June 30, 2018, is as follows:

<u>Year Ending June 30</u>	<u>Principal*</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 325,000	\$ 67,289	\$ 392,289
2020	350,000	56,752	406,752
2021	385,000	45,258	430,258
2022	425,000	32,726	457,726
2023	460,000	18,838	478,838
2024	240,000	3,831	243,831
Total	<u>\$ 2,185,000</u>	<u>\$ 224,694</u>	<u>\$ 2,409,694</u>

* Mandatory Sinking Fund Payment

The annual requirement to amortize the 2014 Series A Refunding general obligation bonds payable, outstanding at June 30, 2018, is as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 260,000	\$ 127,994	\$ 387,994
2020	280,000	114,494	394,494
2021	300,000	99,994	399,994
2022	325,000	84,369	409,369
2023	345,000	67,619	412,619
2024-28	455,000	201,344	656,344
2029-32	1,125,000	46,397	1,171,397
Total	<u>\$ 3,090,000</u>	<u>\$ 742,211</u>	<u>\$ 3,832,211</u>

The annual requirement to amortize the Series 2015 Series A general obligation bonds payable, outstanding at June 30, 2018, is as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 65,000	\$ 399,931	\$ 464,931
2020	90,000	396,056	486,056
2021	110,000	391,056	501,056
2022	135,000	384,931	519,931
2023	165,000	377,431	542,431
2024-28	1,325,000	1,724,681	3,049,681
2029-33	2,320,000	1,383,206	3,703,206
2034-38	3,645,000	844,309	4,489,309
2039-40	1,955,000	89,375	2,044,375
Total	<u>\$ 9,810,000</u>	<u>\$ 5,990,976</u>	<u>\$ 15,800,976</u>

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
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The annual requirement to amortize the Series 2016 Refunding general obligation bonds payable, outstanding at June 30, 2018, is as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 245,000	\$ 111,550	\$ 356,550
2020	265,000	102,575	367,575
2021	470,000	92,575	562,575
2022	535,000	82,525	617,525
2023	590,000	71,275	661,275
2024-28	1,960,000	173,275	2,133,275
2029-32	345,000	18,950	363,950
Total	<u>\$ 4,410,000</u>	<u>\$ 652,725</u>	<u>\$ 5,062,725</u>

The annual requirement to amortize the 2016 Series B general obligation bonds payable, outstanding at June 30, 2018, is as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ -	\$ 633,150	\$ 633,150
2020	-	633,150	633,150
2021	-	633,150	633,150
2022	10,000	633,000	643,000
2023	30,000	632,400	662,400
2024-28	615,000	3,117,125	3,732,125
2029-33	1,620,000	2,901,400	4,521,400
2034-38	2,980,000	2,514,500	5,494,500
2039-43	5,330,630	4,226,170	9,556,800
2044-46	7,375,000	458,500	7,833,500
Total	<u>\$ 17,960,630</u>	<u>\$ 16,382,545</u>	<u>\$ 34,343,175</u>

The annual requirement to amortize the 2008 Series D general obligation bonds payable, outstanding at June 30, 2018, is as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ -	\$ 29,465	\$ 29,465
2020	80,000	27,600	107,600
2021	148,445	33,355	181,800
2022	163,730	38,070	201,800
2023	145,504	41,296	186,800
2024-28	2,562,523	526,275	3,088,798
2029-33	2,124,005	1,040,995	3,165,000
2034-38	900,837	924,163	1,825,000
2039-42	794,155	1,145,845	1,940,000
Total	<u>\$ 6,919,199</u>	<u>\$ 3,807,064</u>	<u>\$ 10,726,263</u>

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
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The total annual requirement to amortize general obligation bonds payable, outstanding at June 30, 2018, is summarized as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 1,438,861	\$ 1,624,340	\$ 3,063,201
2020	1,665,177	1,578,519	3,243,696
2021	1,863,761	1,539,803	3,403,564
2022	2,053,455	1,500,927	3,554,382
2023	2,218,135	1,456,034	3,674,169
2024-28	9,723,501	7,797,232	17,520,733
2029-33	10,989,065	12,239,119	23,228,184
2034-38	8,826,077	13,530,860	22,356,937
2039-43	9,757,911	16,399,437	26,157,348
2044-48	8,814,276	14,706,754	23,521,030
2049-50	<u>637,489</u>	<u>8,602,765</u>	<u>9,240,254</u>
Total	<u>\$ 57,987,708</u>	<u>\$ 80,975,790</u>	<u>\$ 138,963,498</u>

11. TOTAL OPEB LIABILITY

General Information About the OPEB Plan

Plan Description.

Eligible employees may continue medical and dental benefits at retirement. The plan is available to Southern Kern Unified (RTA) employees, classified employees (CSEA), management & confidential employees, psychologists, and supervisors. The Plan is a single-employer defined benefit OPEB plan administered by the District. Board Policy grants the authority to establish and amend the benefit terms and financing requirements to the governing board. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement 75.

Benefits Provided. The following is a description of the current retiree benefit plan:

	Certificated, Management and Confidential	Classified
	<u>Medical, Dental and Vision</u>	<u>Medical, Dental and Vision</u>
Benefit Types Provided	To age 65*	To age 65**
Duration of Benefits	20 years*	20 years**
Required Service	Retirement	Retirement
Minimum Age	Yes	Yes
Dependent Coverage	100% to cap	100% to cap
District Contribution %	Active Cap	Active Cap
District Cap		

*Employees hired up to 7/1/15 are entitled to 5 years of benefits for service of 12 to 19 years; and benefits can extent beyond age 65

**Employees hired up to 7/1/14 are entitled to 5 years of benefits for service of 12 to 19 years; and benefits can extent beyond age 65

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
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Employees Covered by Benefit Terms

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

Inactive employees currently receiving benefits	71
Inactive employees entitled to but not yet receiving benefits	-
Participating Active Employees	428
Total	499

Total OPEB Liability

The District total OPEB liability of \$18,248,985 was measured as of June 30, 2018, and was determined by an actuarial valuation as of the date.

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:

Inflation	2.75%
Salary increases	2.75%
Discount rate	3.80%
Healthcare cost trend rate	4.00%

The discount rate is based on the Bond Buyer 20-Bond GO index.

Mortality rates are based on the most recent rates used by CalPERS and STRS for the pension valuations. Termination rates are based on the most recent rates used by CalPERS and the California State Teachers Retirement System (STRS) for the pension valuation.

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at July 1, 2017	\$ 17,507,691
Changes for the year:	
Service Cost	1,099,477
Interest	666,146
Benefit Payments	(1,024,326)
Net changes	741,297
Balance at June 30, 2018	\$ 18,248,988

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
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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 1 percentage point lower or 1 percentage point higher than the current discount rate.

	1% Decrease 2.80%	Discount Rate 3.80%	1% Increase 4.80%
Total OPEB liability (asset)	\$ 20,608,619	\$ 18,248,985	\$ 16,363,042

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 1 percentage-point lower or 1 percentage-point higher than the current healthcare cost trend rate:

	1% Decrease 3.00%	Healthcare Cost Trend Rate 4.00%	1% Increase 5.00%
Net OPEB liability (asset)	\$ 16,415,189	\$ 18,248,985	\$ 20,472,558

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 \$741,294. At June 30, 2018, the District reported no deferred outflows of resources or deferred inflows of resources related to OPEB.

12. COMPENSATED ABSENCES

The total accumulated unpaid employee compensated absences as of June 30, 2018, amounted to \$349,371.

13. NET PENSION LIABILITY

General Information About the Pension Plans

Plan Descriptions

Qualified employees are covered under cost-sharing multiple-employer defined benefit pension plans maintained by agencies of the State of California. Classified employees are members of the California Public Employees' Retirement System (CalPERS) and certificated employees are members of the California State Teachers' Retirement System (CalSTRS). Benefit provisions under the plans are established by State statute and Local Government resolution. Support by the State for the CalSTRS plan is such that the plan has a special funding situation as defined by GASB Statement No. 68. CalPERS and CalSTRS issue publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on their respective websites.

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2018

Benefits Provided

CalPERS and CalSTRS provide service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members. Benefits are based on years of credited service, equal to one year of service credit for each year of full-time employment. Members with five years of total service are eligible to retire at age 62 for normal benefits or at age 55 with statutorily reduced benefits. Employees hired prior to January 1, 2013 are eligible to retire at age 60 for normal benefits or at age 55 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. All members are eligible for death benefits after one year of total service.

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

	CalPERS		CalSTRS	
	Before January 1, 2013	On or After January 1, 2013	Before January 1, 2013	On or After January 1, 2013
Hire Date				
Benefit Formula	2% at 55	2% at 62	2% at 60	2% at 62
Benefit Vesting Schedule	5 Years	5 Years	5 Years	5 Years
Benefit Payments	Monthly for Life	Monthly for Life	Monthly for Life	Monthly for Life
Retirement Age	50-62	52-67	50-62	55-67
Monthly benefits, as a % of eligible compensation	1.1 - 2.5%	1.0 - 2.5%	1.1 - 2.4%	1.0 - 2.4%*
Required employee contribution rates (average)	7.000%	6.500%	10.250%	9.205%
Required employer contribution rates	15.531%	15.531%	14.430%	14.430%

*Amounts are limited to 120% of Social Security Wage Base.

Contributions - CalPERS

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The CalPERS Board retains the authority to amend contribution rates. The total plan contributions are determined through CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the measurement period ended June 30, 2017 (measurement date), employees hired prior to January 1, 2013 paid in 7.00%, employees hired on or after January 1, 2013 paid 6.00%, and the employer contribution rate was 13.88% of annual payroll. For the fiscal year ending June 30, 2018, employees hired prior to January 1, 2013 contributed 7.00%, employees hired on or after January 1, 2013 contributed 6.50%, and the employer's contribution rate was 15.531%.

Contributions - CalSTRS

For the measurement period ended June 30, 2017 (measurement date), Section 22950 of the California Education Code requires members to make monthly contributions 9.205% of the creditable compensation upon which members' contributions under this part are based. In addition, the employer required rates established by the CalSTRS Board have been established at 12.58% of creditable compensation. Rates are defined in Section 22950.5 through measurement period ending June 30, 2021. Section 22950.5 states, "For fiscal year 2021-22 and each fiscal year thereafter, the board shall increase or decrease the percentages paid specified in this section from the percentage paid during the prior fiscal year to reflect the contribution required to eliminate by June 30, 2046, the remaining unfunded actuarial obligation with respect to service credited to members before July 1, 2014, as determined by the board based upon a recommendation from its actuary."

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2018

On-Behalf Payments

Consistent with Section 22955.1 of the California Education Code, the State of California makes contributions to CalSTRS on behalf of employees working for the District. For the measurement period ended June 30, 2017 (measurement date), the State contributed 9.117017% of salaries creditable to CalSTRS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On-behalf payments have been excluded from the calculation of available reserves, and have not been included in the budgeted amounts reported in the General Fund Budgetary Comparison Schedule.

Contributions Recognized

For the year ended June 30, 2018, the contributions recognized as part of pension expense for each plan were as follows:

	CalPERS	CalSTRS
Contributions - Employer	\$ 1,124,320	\$ 1,808,531
Contributions - Employee (paid by employer)	485,737	1,323,333
Contributions - State On-Behalf Payments	-	547
 Total	 \$ 1,610,057	 \$ 3,132,411

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

As of June 30, 2018, the District reported a net pension liability for its proportionate share of the net pension liability of each plan as follows:

	Proportionate Share of Net Pension Liability
CalPERS	\$ 15,156,739
CalSTRS	25,089,824
 Total Net Pension Liability	 \$ 40,246,563

The District's net pension liability for each plan is measured as the proportionate share of the net pension liability as of June 30, 2017. The total pension liability for each plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016, rolled forward to June 30, 2017. The District's proportionate share of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined.

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2018

For the year ended June 30, 2018, the District recognized pension expense of \$10,400,873. 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	\$ 4,951,388	\$ -
Differences between actual and expected experience	635,788	437,607
Changes in assumptions	4,648,183	178,452
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	-	-
Net difference between projected and actual earnings on plan investments	524,319	668,212
Total	\$ 10,759,678	\$ 1,284,271

\$4,951,388 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. The other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ending June 30	
2019	\$ 1,254,963
2020	2,166,553
2021	1,520,975
2022	(418,472)
Total	\$ 4,524,019

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2018

Actuarial Assumptions

The total pension liabilities in the June 30, 2017, actuarial valuations were determined using the following actuarial assumptions:

	<u>CalPERS</u>	<u>CalSTRS</u>
Valuation Date	June 30, 2016	June 30, 2016
Measurement Date	June 30, 2017	June 30, 2017
Actuarial Cost Method	Entry Age - Normal	Entry Age - Normal
Actuarial Assumptions		
Discount Rate	7.15%	7.10%
Inflation	2.75%	2.75%
Payroll Growth	3.00%	3.50%
Projected Salary Increase	Varies *	Varies *
Investment Rate of Return	7.50% #	7.10% #
Mortality	Varies &	Varies &

- * Depending on age, service and type of employment
- # Net of pension plan investment expenses, including inflation
- & Depending on age, gender and type of job

Discount Rate

The discount rate used to measure the total pension liability was 7.15% for CalPERS and 7.10% for CalSTRS. To determine whether the District bond rate should be used in calculation of a discount rate for each plan, CalPERS and CalSTRS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current discount rates are adequate and the use of the District bond rate calculation is not necessary for either plan.

The stress test results are presented in a detailed report that can be obtained from the CalPERS and CalSTRS websites.

According to Paragraph 30 of GASB Statement No. 68, the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. Administrative expenses are assumed to be 15 basis points. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS and CalSTRS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

CalPERS and CalSTRS are scheduled to review all actuarial assumptions as part of their regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require board action and proper stakeholder outreach. For these reasons, CalPERS and CalSTRS expect to continue using a discount rate net of administrative expenses for GASB 67 and GASB 68 calculations through at least the 2017-18 fiscal year. CalPERS and CalSTRS will continue to check the materiality of the difference in calculation until such time as they have changed their methodology.

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2018

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

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

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

Asset Class	CalSTRS	
	Assumed Assets Allocation	Long Term Expected Rate of Return*
Global Equity	47.00%	6.30%
Fixed Income	12.00%	0.30%
Inflation Sensitive	4.00%	3.80%
Private Equity	13.00%	9.30%
Real Estate	13.00%	5.20%
Liquidity	2.00%	-1.00%
Absolute Return/Risk Mitigating	9.00%	2.90%

* 20-year average

Asset Class	CalPERS		
	Strategic Allocation	Real Return (Years 1-10) *	Real Return (Years 11+) #
Global Equity	47.00%	4.90%	5.38%
Fixed Income	19.00%	0.80%	2.27%
Inflation Assets	6.00%	0.60%	1.39%
Private Equity	12.00%	6.60%	6.63%
Real Estate	11.00%	2.80%	5.21%
Infrastructure and Forestland	3.00%	3.90%	5.36%
Liquidity	2.00%	-0.40%	-0.90%

* An expected inflation of 2.5% used for this period

An expected inflation of 3.0% used for this period

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2018

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

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

	CalPERS	CalSTRS
1% Decrease	6.15%	6.10%
Net Pension Liability	\$ 22,300,420	\$ 36,839,827
Current Discount Rate	7.15%	7.10%
Net Pension Liability	\$ 15,156,739	\$ 25,089,824
1% Increase	8.15%	8.10%
Net Pension Liability	\$ 9,230,457	\$ 15,553,900

Pension Plan Fiduciary Net Position

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

14. COUNTY PROPERTY TAX CONTINGENT LIABILITIES

Southern Kern Unified School District’s share of the estimated property tax liability based on information gathered from the Office of the Auditor-Controller of the County of Kern through June 30, 2018, for litigation and other tax refund claims pending at that time are as follows:

Total Liabilities (as of June 30, 2018)	\$	1,360,433
Less: Impounds (as of June 30, 2018)		1,183,228
Net Liability	\$	2,543,661

It should be noted that these figures do not include any appeals or claims of litigation filed or compiled after June 30, 2018, but they do include provisions for valuation and taxes in dispute through June 30, 2018.

15. JOINT POWERS AGREEMENTS

The Southern Kern Unified School District participates in three joint ventures under joint powers agreement (JPAs): Self Insured Schools of California I (SISC I), Self Insured Schools of California II (SISC II), and Self Insured Schools of California III (SISC III). The relationship between the Southern Kern Unified School District and the JPAs is such that none of the JPAs is a component unit of Southern Kern Unified School District for financial reporting purposes.

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2018

Self Insured Schools of California I, II and III

Purpose: Arranges for and provides workers compensation, property and liability, and health insurance coverage for their member districts.

Participants: School districts in Central and Southern California.

Governing Board: Board of Directors are elected by member districts. All board members are employees of school districts.

Condensed audited financial information on the JPAs is as follows:

	SISC I 6/30/17	SISC II 6/30/17	SISC III 9/30/17
Total Assets	\$ 90,367,824	\$ 48,144,010	\$ 540,754,328
Total Liabilities	60,303,205	33,774,894	173,862,442
Net Position	<u>\$ 30,064,619</u>	<u>\$ 14,369,116</u>	<u>\$ 366,891,886</u>
Total Revenues	\$ 27,361,994	\$ 21,716,362	\$ 2,089,274,509
Total Expenditures	25,665,257	28,886,143	1,984,882,354
Net Increase (Decrease) in Net Position	<u>\$ 1,696,737</u>	<u>\$ (7,169,781)</u>	<u>\$ 104,392,155</u>

16. COMMITMENTS AND CONTINGENCIES

A. Federal and State 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. If the review of audit discloses exceptions, the District may incur a liability to 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. Pending Litigation

As of June 30, 2018, there are no claims of litigation involving the District.

C. Construction Commitments

The construction of the new elementary school is 95% completed as of June 30, 2018, with a total cost estimate of \$24,000,000.

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2018

17. ADJUSTMENT FOR RESTATEMENT

Adjustments were made to the beginning balance as follows:

	General Fund	Cafeteria Fund	Government - wide Net Position
Stores Inventory	\$ (26,622)	\$ -	\$ (26,622)
Revolving Cash	-	(2,500)	(2,500)
Accounts Receivable	(24,578)	-	(24,578)
Total OPEB Liability	<u>-</u>	<u>-</u>	<u>(10,094,374)</u>
Total	<u>\$ (51,200)</u>	<u>\$ (2,500)</u>	<u>\$ (10,148,074)</u>

18. SUBSEQUENT EVENT

On July 1, 2018, the District entered into a Line of Credit Loan Agreement with the Kern County Superintendent of Schools. The loan is evidenced by a promissory note not to exceed \$5,000,000. All advances shall bear interest at the rate the advanced funds would have earned if they remained in the lender's account with the Kern County Treasurer's Pooled Investment Fund for the same period of time. Funds drawn upon this line of credit are due and payable on June 30, 2020.

19. GOING CONCERN

The District's past deficit spending, caused in part by substantial increases in payroll, coupled with large construction projects, has resulted in substantial doubt about the District's ability to continue as a going concern. The following issues indicate that the District may not be able to meet their financial obligations:

1. The District has filed a negative certification for 2017-18 second and third interim reports with the Kern County Office of Education. In addition, the District has filed a negative certification for the 2018-19 first interim reports with the Kern County Office of Education. The negative certification status states that the District will not meet its cash flow needs.
2. The District obtained a \$5 million Line of Credit from Kern County Superintendent of Schools for the purpose of maintaining positive cash flow.

In response to these issues, the Kern County Office of Education is monitoring and overseeing activities of the District.

The District has already identified and implemented certain budget cuts. In a Fiscal Recovery Plan submitted to the County in May 2018, the District identified cuts for the third interim period that were expected to result in a savings of approximately \$665,000. In addition, reductions in force have been approved by the Board numerous times up to the date of this report. These cuts, combined with projected increases in revenues, are expected to bring the General Fund back to a positive ending balance by June 30, 2019, but still below the required 3%. Budget reductions will continue through the 2019-20 school year.

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

In the event that the District cannot meet their financial obligations, the State Superintendent of Public Instruction will issue an emergency loan to help the District meet their obligations. If this occurs, the law requires that the State Superintendent of Public Instruction assume all the legal rights, duties, and powers of the governing board of the District and appoint a state administrator. The District's elected governing board serves only in an advisory capacity until a number of conditions are met.

Required Supplementary
Information

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
 FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	Budgeted Amounts		Actual (GAAP Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<u>REVENUES</u>				
Local Control Funding Formula Sources:				
State Apportionments	\$ 22,674,728	\$ 21,656,360	\$ 21,584,254	\$ (72,106)
Education Protection Account Funds	4,228,689	4,228,689	4,684,083	455,394
Local Sources	5,477,223	6,792,217	6,424,367	(367,850)
Total LCFF Sources	32,380,640	32,677,266	32,692,704	15,438
Federal Revenues	1,966,737	2,102,367	2,160,076	57,709
Other State Revenues	1,353,956	2,655,456	4,146,151	1,490,695
Other Local Revenues	1,635,000	2,050,139	2,305,382	255,243
Total Revenues	37,336,333	39,485,228	41,304,313	1,819,085
<u>EXPENDITURES</u>				
Certificated Salaries	14,776,092	17,014,679	17,192,919	(178,240)
Classified Salaries	8,010,768	8,548,995	9,026,271	(477,276)
Employee Benefits	9,765,340	12,116,721	13,738,996	(1,622,275)
Books and Supplies	1,687,954	1,809,059	1,708,595	100,464
Services and Other Operating Expenditures	3,025,622	3,228,062	3,180,946	47,116
Other Outgo	80,000	-	-	-
Capital Outlay	150,000	216,021	236,793	(20,772)
Total Expenditures	37,495,776	42,933,537	45,084,520	(2,150,983)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES				
	(159,443)	(3,448,309)	(3,780,207)	(331,898)
<u>OTHER FINANCING SOURCES (USES)</u>				
Interfund Transfers In	-	-	13,361	13,361
Interfund Transfers Out	(75,000)	-	(883,612)	(883,612)
Total Other Financing Sources (Uses)	(75,000)	-	(870,251)	(870,251)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES (USES)				
	\$ (234,443)	\$ (3,448,309)	(4,650,458)	\$ (1,202,149)
<u>FUND BALANCE - JULY 1, 2017, as Previously Reported</u>			1,247,671	
Adjustment for Restatement (Note 17)			(51,200)	
<u>FUND BALANCE - JULY 1, 2017, as Restated</u>			1,196,471	
<u>FUND BALANCE - JUNE 30, 2018</u>			\$ (3,453,987)	

See accompanying Notes to Required Supplementary Information.

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
SCHEDULE OF CHANGES IN THE DISTRICT'S TOTAL
OPEB LIABILITY AND RELATED RATIOS LAST TEN FISCAL YEARS*
 FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	<u>Fiscal Year 2018</u>
Total OPEB Liability	
Service cost	\$ 1,099,474
Interest	666,146
Benefit payments	<u>(1,024,326)</u>
Net Change in OPEB Liability	741,294
Total OPEB Liability-Beginning	<u>17,507,691</u>
Total OPEB Liability-Ending	<u>\$ 18,248,985</u>
Covered - Employee Payroll	<u>\$ 26,202,621</u>
Total OPEB Liability as a Percentage of Covered-Employee Payroll	<u>69.65%</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.

See accompanying Notes to Required Supplementary Information.

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
CALPERS/CALSTRS LAST TEN FISCAL YEARS*
 FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	CalPERS			
	Fiscal Year 2018	Fiscal Year 2017	Fiscal Year 2016	Fiscal Year 2015
District's proportion of the net pension liability	0.06349%	0.05653%	0.05508%	0.04468%
District's proportionate share of the net pension liability	\$ 15,156,739	\$ 11,164,710	\$ 8,118,846	\$ 5,072,268
District's covered-employee payroll	\$ 8,095,622	\$ 6,782,249	\$ 6,107,493	\$ 4,689,836
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	187.22%	164.62%	132.93%	108.15%
Plan fiduciary net position as a percentage of the total pension liability	71.87%	73.90%	79.43%	83.38%

	CalSTRS			
	Fiscal Year 2018	Fiscal Year 2017	Fiscal Year 2016	Fiscal Year 2015
District's proportion of the net pension liability	0.02713%	0.02632%	0.02552%	0.02216%
District's proportionate share of the net pension liability	\$ 25,089,824	\$ 21,287,879	\$ 17,181,085	\$ 12,949,639
State's proportionate share of the net pension liability associated with the District	9,325,888	7,723,243	6,468,679	4,145,658
Total	<u>\$ 34,415,712</u>	<u>\$ 29,011,122</u>	<u>\$ 23,649,764</u>	<u>\$ 17,095,297</u>
District's covered-employee payroll	\$ 14,376,240	\$ 13,078,742	\$ 12,456,396	\$ 9,819,895
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	174.52%	162.77%	137.93%	131.89%
Plan fiduciary net position as a percentage of the total pension liability	69.46%	70.04%	74.02%	76.52%

* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this schedule provides the information only for those years for which information is available.

See accompanying Notes to Required Supplementary Information.

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS
CALPERS/CALSTRS LAST TEN FISCAL YEARS*
 FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	CalPERS			
	Fiscal Year 2018	Fiscal Year 2017	Fiscal Year 2016	Fiscal Year 2015
Contractually required contribution	\$ 1,399,358	\$ 1,125,164	\$ 803,493	\$ 718,913
Contributions in relation to the contractually required contribution	1,399,358	1,125,164	803,493	718,913
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
District's covered-employee payroll	\$ 13,137,969	\$ 8,101,703	\$ 6,782,249	\$ 6,107,493
Contributions as a percentage of covered-employee payroll	15.531%	13.888%	11.847%	11.771%
	CalSTRS			
	Fiscal Year 2018	Fiscal Year 2017	Fiscal Year 2016	Fiscal Year 2015
Contractually required contribution	\$ 2,345,881	\$ 1,883,287	\$ 1,403,349	\$ 1,106,128
Contributions in relation to the contractually required contribution	2,345,881	1,883,287	1,403,349	1,106,128
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
District's covered-employee payroll	\$ 16,256,972	\$ 14,970,482	\$ 13,078,742	\$ 12,456,396
Contributions as a percentage of covered-employee payroll	14.43%	12.58%	10.73%	8.88%

* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this schedule provides the information only for those years for which information is available.

See accompanying Notes to Required Supplementary Information.

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
 FOR THE FISCAL YEAR ENDED JUNE 30, 2018

1. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

As of June 30, 2018, expenditures exceeded appropriations in individual funds as follows:

<u>Appropriations Category</u>	<u>Excess Expenditures</u>
General Fund:	
Certificated Salaries	\$ 178,240
Classified Salaries	477,276
Employee Benefits	162,275
Capital Outlay	20,772

2. PURPOSE OF SCHEDULES

Budgetary Comparison Schedules

These schedules are 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 schedules present both (a) the original and (b) the final appropriated budgets for the reporting period as well as (c) actual inflows, outflows, and balances, stated on the District's budgetary basis. A separate column to report the variance between the final budget and actual amounts is also presented, although not required.

Schedule of Changes in the District's 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.

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 proportion 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

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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.

3. SUMMARY OF CHANGES OF BENEFITS OR ASSUMPTIONS

Benefit Changes

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

Changes of Assumptions

There were no changes of assumptions.

Supplementary Information

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
 JUNE 30, 2018

	ADULT FUND	CAFETERIA FUND	TOTAL
<u>ASSETS</u>			
Cash			
Cash in County Treasury	\$ 137,983	\$ 4,240	\$ 142,223
Accounts Receivable	62,297	272,898	335,195
Due from Other Funds	-	91,268	91,268
	<u>200,280</u>	<u>368,406</u>	<u>568,686</u>
TOTAL ASSETS	<u>\$ 200,280</u>	<u>\$ 368,406</u>	<u>\$ 568,686</u>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities			
Accounts Payable	\$ 1,224	\$ 196,996	\$ 198,220
Due to Other Funds	23,600	-	23,600
Unearned Revenue	-	5,242	5,242
	<u>24,824</u>	<u>202,238</u>	<u>227,062</u>
Total Liabilities	<u>24,824</u>	<u>202,238</u>	<u>227,062</u>
Fund Balances			
Restricted	83,916	166,168	250,084
Assigned	91,540	-	91,540
	<u>175,456</u>	<u>166,168</u>	<u>341,624</u>
Total Fund Balances	<u>175,456</u>	<u>166,168</u>	<u>341,624</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 200,280</u>	<u>\$ 368,406</u>	<u>\$ 568,686</u>

The Notes to Financial Statements are an integral part of this statement.

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
NONMAJOR SPECIAL REVENUE FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	ADULT FUND	CAFETERIA FUND	TOTAL
<u>REVENUES</u>			
Other Federal Revenues	\$ -	\$ 2,223,630	\$ 2,223,630
Other State Revenues	(354,666)	140,244	(214,422)
Other Local Revenues	(48,718)	61,993	13,275
Total Revenues	(403,384)	2,425,867	2,022,483
<u>EXPENDITURES</u>			
Instruction	85,493	-	85,493
School Site Administration	1,917	-	1,917
Food Services	-	2,404,790	2,404,790
Total Expenditures	87,410	2,404,790	2,492,200
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(490,794)	21,077	(469,717)
<u>OTHER FINANCING SOURCES (USES)</u>			
Interfund Transfers In	614,343	141,268	755,611
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES (USES)	123,549	162,345	285,894
<u>FUND BALANCES</u> - JULY 1, 2017, as Previously Reported	51,907	6,323	58,230
Adjustment for Restatement	-	(2,500)	(2,500)
<u>FUND BALANCES</u> - JULY 1, 2017, as Restated	51,907	3,823	55,730
<u>FUND BALANCES</u> - JUNE 30, 2018	\$ 175,456	\$ 166,168	\$ 341,624

The Notes to Financial Statements are an integral part of this statement.

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR CAPITAL PROJECTS FUNDS
 JUNE 30, 2018

	CAPITAL FACILITIES FUND	COUNTY SCHOOL FACILITIES FUND	SPECIAL RESERVE FUND	TOTAL
<u>ASSETS</u>				
Cash				
Cash in County Treasury	\$ 20,610	\$ 967	\$ 57	\$ 21,634
Accounts Receivable	900	4	1	905
Due From Other Fund	146,311	-	-	146,311
	<u>167,821</u>	<u>971</u>	<u>58</u>	<u>168,850</u>
TOTAL ASSETS	<u>\$ 167,821</u>	<u>\$ 971</u>	<u>\$ 58</u>	<u>\$ 168,850</u>
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities				
Accounts Payable	\$ 4,892	\$ -	\$ -	\$ 4,892
Fund Balances				
Assigned	162,929	971	58	163,958
	<u>162,929</u>	<u>971</u>	<u>58</u>	<u>163,958</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 167,821</u>	<u>\$ 971</u>	<u>\$ 58</u>	<u>\$ 168,850</u>

The Notes to Financial Statements are an integral part of this statement.

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
NONMAJOR CAPITAL PROJECTS FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	CAPITAL FACILITIES FUND	COUNTY SCHOOL FACILITIES FUND	SPECIAL RESERVE FUND	TOTAL
<u>REVENUES</u>				
Other Local Revenues	\$ 407,582	\$ 14	\$ 1	\$ 407,597
<u>EXPENDITURES</u>				
General Administration:				
All Other General Administration	9,980	-	-	9,980
Plant Services	29,839	-	-	29,839
Facilities Acquisition and Construction	453,735	-	-	453,735
Total Expenditures	493,554	-	-	493,554
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(85,972)	14	1	(85,957)
<u>OTHER FINANCING SOURCES (USES)</u>				
Interfund Transfers In	(13,361)	-	-	(13,361)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES (USES)	(99,333)	14	1	(99,318)
<u>FUND BALANCES - JULY 1, 2017</u>	262,262	957	57	263,276
<u>FUND BALANCES - JUNE 30, 2018</u>	\$ 162,929	\$ 971	\$ 58	\$ 163,958

The Notes to Financial Statements are an integral part of this statement.

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF CHANGES IN
ASSETS AND LIABILITIES - STUDENT BODY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	BALANCE JULY 1, 2017	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2018
<u>Rosamond High School</u>				
<u>ASSETS</u>				
Cash on Hand and in Banks	\$ 117,988	\$ 334,695	\$ 286,168	\$ 166,515
TOTAL ASSETS	\$ 117,988	\$ 334,695	\$ 286,168	\$ 166,515
<u>LIABILITIES</u>				
Accounts Payable	\$ -	\$ -	\$ -	\$ -
Due to Student Groups				
Club Accounts	111,158	319,136	274,363	155,931
General ASB Accounts	6,830	15,559	11,805	10,584
Total Due to Student Groups	117,988	334,695	286,168	166,515
TOTAL LIABILITIES	\$ 117,988	\$ 334,695	\$ 286,168	\$ 166,515
<u>Tropico Middle School</u>				
<u>ASSETS</u>				
Cash on Hand and in Banks	\$ 31,611	\$ 79,835	\$ 66,910	\$ 44,536
TOTAL ASSETS	\$ 31,611	\$ 79,835	\$ 66,910	\$ 44,536
<u>LIABILITIES</u>				
Accounts Payable	\$ -	\$ -	\$ -	\$ -
Due to Student Groups				
Club Accounts	29,596	62,718	50,436	41,878
General ASB Accounts	2,015	17,117	16,474	2,658
Total Due to Student Groups	31,611	79,835	66,910	44,536
TOTAL LIABILITIES	\$ 31,611	\$ 79,835	\$ 66,910	\$ 44,536
<u>Rosamond Elementary School</u>				
<u>ASSETS</u>				
Cash on Hand and in Banks	\$ 2,767	\$ 10,548	\$ 8,319	\$ 4,996
TOTAL ASSETS	\$ 2,767	\$ 10,548	\$ 8,319	\$ 4,996
<u>LIABILITIES</u>				
Accounts Payable	\$ -	\$ -	\$ -	\$ -
Due to Student Groups				
Club Accounts	-	-	-	-
General ASB Accounts	2,767	10,548	8,319	4,996
Total Due to Student Groups	2,767	10,548	8,319	4,996
TOTAL LIABILITIES	\$ 2,767	\$ 10,548	\$ 8,319	\$ 4,996

The Notes to Financial Statements are an integral part of this statement.

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF CHANGES IN
ASSETS AND LIABILITIES - STUDENT BODY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	BALANCE JULY 1, 2017	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2018
<u>Westpark Elementary School</u>				
<u>ASSETS</u>				
Cash on Hand and in Banks	\$ 16,148	\$ 46,604	\$ 45,260	\$ 17,492
TOTAL ASSETS	\$ 16,148	\$ 46,604	\$ 45,260	\$ 17,492
<u>LIABILITIES</u>				
Accounts Payable	\$ -	\$ -	\$ -	\$ -
Due to Student Groups				
Club Accounts	-	-	-	-
General ASB Accounts	16,148	46,604	45,260	17,492
Total Due to Student Groups	16,148	46,604	45,260	17,492
TOTAL LIABILITIES	\$ 16,148	\$ 46,604	\$ 45,260	\$ 17,492
<u>Total</u>				
<u>ASSETS</u>				
Cash on Hand and in Banks	\$ 168,514	\$ 471,682	\$ 406,657	\$ 233,539
TOTAL ASSETS	\$ 168,514	\$ 471,682	\$ 406,657	\$ 233,539
<u>LIABILITIES</u>				
Accounts Payable	\$ -	\$ -	\$ -	\$ -
Due to Student Groups				
Club Accounts	140,754	381,854	324,799	197,809
General ASB Accounts	27,760	89,828	81,858	35,730
Total Due to Student Groups	168,514	471,682	406,657	233,539
TOTAL LIABILITIES	\$ 168,514	\$ 471,682	\$ 406,657	\$ 233,539

The Notes to Financial Statements are an integral part of this statement.

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
BOARD OF TRUSTEES AND ORGANIZATION
 JUNE 30, 2018

BOARD OF TRUSTEES

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Yolanda Sanchez	President	December 2018
Patrick Reader	Vice President	December 2020
Sandy Kirk	Clerk	December 2018
David Gregg	Member	December 2018
Mario Gutierrez	Member	December 2020

ADMINISTRATION

Jeffrey Weinstein	Superintendent
Leanne Hargus	Associate Superintendent, Educational Services
Arik Avanesyans	Chief Business Officer

ORGANIZATION

The Southern Kern Unified School District was established in 1962. The District has not made any changes in District boundaries. During the 2017/18 school year, the District operated two elementary schools, one middle school, one high school-WASC accredited, and two alternative education schools (continuation high school and independent study school) both WASC accredited, and a school for emotionally disturbed students known as Ascend Academy.

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
SCHEDULE OF AVERAGE DAILY ATTENDANCE
 FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	Second Period Report <u>3A93C952</u>	Annual Report <u>6D770913</u>
TK/K-3		
Regular	1,129.76	1,136.50
Extended Year Special Education	1.07	1.07
Subtotal TK/K-3	<u>1,130.83</u>	<u>1,137.57</u>
Grades 4-6		
Regular	821.79	819.92
Extended Year Special Education	0.89	0.89
Subtotal Grades 4-6	<u>822.68</u>	<u>820.81</u>
Grades 7-8		
Regular	486.74	486.28
Extended Year Special Education	0.44	0.44
Subtotal Grades 7-8	<u>487.18</u>	<u>486.72</u>
Grades 9-12		
Regular	882.41	875.74
Extended Year Special Education	0.52	0.52
Subtotal Grades 9-12	<u>882.93</u>	<u>876.26</u>
Grand Total	<u><u>3,323.62</u></u>	<u><u>3,321.36</u></u>

See accompanying Notes to Supplementary Information.

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
SCHEDULE OF INSTRUCTIONAL TIME
 FOR THE FISCAL YEAR ENDED JUNE 30, 2018

<u>GRADE LEVEL</u>	<u>1986-87 MINUTES REQUIREMENT</u>	<u>2017-18 ACTUAL MINUTES</u>	<u>NUMBER OF DAYS TRADITIONAL CALENDAR</u>	<u>NUMBER OF DAYS MULTITRACK CALENDAR</u>	<u>STATUS</u>
Kindergarten	36,000	44,125	180	N/A	In Compliance
Grades 1-3	50,400	53,275	180	N/A	In Compliance
Grades 4-5	54,000	54,825	180	N/A	In Compliance
Grades 6-8	54,000	56,475	180	N/A	In Compliance
Grades 9-12	64,800	66,015	180	N/A	In Compliance

Note: The District participated in Longer Day incentives and did not meet or exceed its target funding.

See accompanying Notes to Supplementary Information.

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2018

<u>GENERAL FUND</u>	(BUDGET)			
	<u>2019*</u>	<u>2018</u>	<u>2017***</u>	<u>2016</u>
Revenues and Other Financial Sources	\$ 42,066,462	\$ 41,304,313	\$ 37,967,206	\$ 36,067,461
Expenditures	40,603,937	45,084,520	38,346,783	35,028,097
Other Uses and Transfers Out	1,400,000	870,251	417,500	350,000
Total Outgo	42,003,937	45,954,771	38,764,283	35,378,097
Change in Fund Balance	62,525	(4,650,458)	(797,077)	689,364
Ending Fund Balance	\$ (3,182,547)	\$ (3,453,987)	\$ 1,247,670	\$ 2,074,219
Available Reserves	\$ (4,054,766)	\$ (4,112,349)	\$ 956,837	\$ 1,269,919
Reserve for Economic Uncertainties	\$ -	\$ -	\$ 956,837	\$ -
Unassigned Fund Balance	\$ (4,054,766)	\$ (4,112,349)	\$ -	\$ 1,269,919
Available Reserves as a Percentage of Total Outgo	-9.66%	-8.95%	2.47%	3.59%
Total Long-Term Debt***	**	\$ 177,761,963	\$ 104,076,778	\$ 86,907,821
Average Daily Attendance at P-2	3,425	33,247	3,190	3,042

The General Fund balance has decreased by \$5,528,206 over the past two years. The fiscal year 2018-19 budget projects a decrease of \$3,182,547. For a district this size, the State recommends available reserves of at least 3% of total General Fund expenditures, other uses and transfers out. Southern Kern Unified School District has not met the State's minimum requirements.

Average daily attendance has increased by 282 ADA over the past two years. An increase of 101 ADA is anticipated during fiscal year 2017-18.

* Based on July 1 budget for General Fund only, included for analytical purposes only and has not been subjected to audit.

** Not determined

*** Restated

See accompanying Notes to Supplementary Information.

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2018

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM OR CLUSTER TITLE	FEDERAL CATALOG NUMBER	PASS- THROUGH ENTITY IDENTIFYING NUMBER	CLUSTER EXPENDITURES	FEDERAL EXPENDITURES
<u>GENERAL FUND</u>				
U.S. Department of Defense:				
Direct:				
ROTC	12.357	none		\$ 38,437
U.S. Department of Education:				
Passed through the California Department of Education (CDE):				
Title I	84.010	14329		1,216,843
Title I, Part C, Migrant Ed	84.011	14838		(9,742)
Title I, Part C, Migrant Ed, Even Start	84.011	14768		3,321
Special Education Cluster:				
Preschool Local Entitlement	84.027A	13682	\$ 523,799	
Local Assistance	84.027	13379	25,947	
Preschool Grant	84.173	13430	<u>6,289</u>	
Total Special Education Cluster				556,035
Title III, LEP	84.365	14346		8,164
* Title II, Part A, Supporting Effective Instruction	84.367	14341		155,668
Carl Perkins Vocational Education	84.048	14894		<u>31,754</u>
Total Department of Education				2,000,480
U.S. Department of Health and Human Services:				
Passed through CDE:				
Medi-Cal Cluster:				
Medi-Cal Billing Option	93.778	10013	58,705	
Medi-Cal Administrative Activities	93.778	10060	<u>100,891</u>	
Total Department of Health and Human Services				<u>159,596</u>
Total General Fund				<u>2,160,076</u>
<u>CAFETERIA FUND</u>				
U.S. Department of Agriculture:				
Passed through CDE:				
* Child Nutrition Cluster:				
National School Lunch Program (NSLP)	10.555	13391, 13396	1,201,784	
Especially Needy Breakfast Program	10.553	13526	557,329	
Meal Supplements	10.555	13391	83,093	
Donated Food Commodities			<u>142,692</u>	
Total Child Nutrition Cluster				1,984,898
Child and Adult Care Food	10.558	13529, 13534		<u>238,732</u>
Total Department of Agriculture				<u>2,223,630</u>
Total Federal Expenditures				<u>\$ 4,383,706</u>
* Major Program Tested				

See accompanying Notes to Supplementary Information.

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT FORM
WITH AUDITED FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	GENERAL FUND	CAFETERIA FUND	ADULT FUND	DEFERRED MAINTENANCE FUND	SPECIAL RESERVE FUND (OTHER)	CAPITAL FACILITIES FUND
June 30, 2018, Annual Financial and Budget Report Form Fund Balances	<u>\$(3,245,072)</u>	<u>\$ -</u>	<u>\$199,056</u>	<u>\$ 1,626</u>	<u>\$ 472</u>	<u>\$ 16,618</u>
<u>Adjustments and Reclassifications</u>						
(Decrease) Cash for:						
Revolving Cash	-	(2,500)	-	-	-	-
Increase (Decrease) Accounts Receivable for:						
June Meals	-	921	-	-	-	-
Categorical Programs	222,707	-	-	-	-	-
LCFF	(37,105)	-	-	-	-	-
Increase (Decrease) Stores for:						
Prior years Inventory	(26,622)	-	-	-	-	-
Increase (Decrease) Due from Grantor Government for:						
Categorical Programs	(331,277)	-	-	-	-	-
Increase (Decrease) Due from Other Funds for:						
Interfund Transfer	23,600	-	-	-	-	146,311
(Increase) Decrease Accounts Payable for:						
Food Service	-	167,747	-	-	-	-
Duplicate	31,009	-	-	-	-	-
(Increase) Decrease Due to Other Funds for:						
Interfund Transfer	(146,311)	-	(23,600)	-	-	-
(Increase) Decrease Unearned Revenue for:						
Categorical Programs	55,084	-	-	-	-	-
Increase (Decrease) Fund Balance for:						
GASB 54 Reporting Requirement	<u>2,098</u>	<u>-</u>	<u>-</u>	<u>(1,626)</u>	<u>(472)</u>	<u>-</u>
Net Adjustments and Reclassifications	<u>(206,817)</u>	<u>166,168</u>	<u>(23,600)</u>	<u>(1,626)</u>	<u>(472)</u>	<u>146,311</u>
June 30, 2018, Audited Financial Statements Fund Balances	<u><u>\$(3,451,889)</u></u>	<u><u>\$ 166,168</u></u>	<u><u>\$175,456</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 162,929</u></u>

See accompanying Notes to Supplementary Information.

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION
JUNE 30, 2018

1. PURPOSE OF SCHEDULES

A. Schedule of Average Daily Attendance

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

B. Schedule of Instructional Time

Districts, including basic aid districts, must maintain their instructional minutes at the 1986-87 requirements, as required by Education Code Section 46201. This schedule is required for all districts, including basic aid districts.

The District has received incentive funding for increasing instructional time as provided by the incentives for Longer Instructional Day. 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 46201 through 46206.

C. 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.

The Board of Trustees and Superintendent continue to work with staff to improve fiscal position. The District's goal is to balance the budget and eliminate a history of deficit spending, strengthen ending balances over time, and avoid the need to use one-time money to support on-going expenditures.

With the assistance with the County Office of Education, the District has been able to meet its financial obligations and remain operational while identifying necessary reductions throughout the District. Reductions of \$2-3 million will be implemented for the 2019-20 fiscal year. In addition, the construction project will be complete and paid for with no additional burden on the general fund in the 2019-20 fiscal year. The District continues to focus on implementing cost saving measures such as staffing reductions through position control, and the elimination of unnecessary contracts, services and expenses.

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION
JUNE 30, 2018

D. Schedule of Expenditures of Federal Awards

Basis of Presentation

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

The Uniform Guidance requires a disclosure of the financial activities of all Federally funded programs. This schedule was prepared to comply with the Uniform Guidance. The District did not elect to use the 10 percent de minimis indirect cost rate.

E. Reconciliation of Annual Financial and Budget Report Form with Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balances of all funds and the total liability balance of the general long-term debt as reported on the Annual Form to the audited financial statements.



Jeanette L. Garcia,
CPA

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

Independent Auditor's Report

To the Board of Trustees
Southern Kern Unified School District
Rosamond, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Southern Kern Unified School District, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Southern Kern Unified School District's basic financial statements, and have issued our report thereon dated December 17, 2018, which includes an Emphasis of Matter paragraph describing an uncertainty about the District's ability to continue as a going concern.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of audit findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of audit findings and questioned costs as Finding 2018-002 to be a material weakness.

Member:

American
Institute of
Certified Public
Accountants

California
Society of
Certified Public
Accountants

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. We consider the deficiencies described in the accompanying schedule of audit findings and questioned costs as Finding 2018-001 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Southern Kern Unified School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of audit findings and questioned costs as Findings 2018-003 through 2018-005.

Southern Kern Unified School District's Response to Findings

Southern Kern Unified School District's response to the findings identified in our audit is described in the accompanying schedule of audit findings and questioned costs. Southern Kern Unified School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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



San Bernardino, California
December 17, 2018



Jeanette L. Garcia,
CPA

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

Independent Auditor's Report

To the Board of Trustees
Southern Kern Unified School District
Rosamond, California

Report on Compliance for Each Major Federal Program

We have audited Southern Kern Unified 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 Southern Kern Unified School District's major federal programs for the year ended June 30, 2018. Southern Kern Unified School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of audit findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Southern Kern Unified 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 Southern Kern Unified 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 Southern Kern Unified School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Southern Kern Unified 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.

Member:

American
Institute of
Certified Public
Accountants

California
Society of
Certified Public
Accountants

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of audit findings and questioned costs as Finding 2018-003. Our opinion on each major federal program is not modified with respect to this matter.

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

Report on Internal Control Over Compliance

Management of Southern Kern Unified 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 Southern Kern Unified 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 Southern Kern Unified School District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of audit findings and questioned costs as Finding 2018-003 that we consider to be a significant deficiency.

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

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



San Bernardino, California
December 17, 2018



Jeanette L. Garcia,
CPA

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

To the Board of Trustees
Southern Kern Unified School District
Rosamond, California

Report on State Compliance

We have audited the 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*, published by the California Education Audit Appeals Panel that could have a direct and material effect on each of the District's state programs identified below for fiscal year ended June 30, 2018.

Management's Responsibility for State Compliance

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each applicable program as identified in the *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel. 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*, published by the Education Audit Appeals Panel. Those standards and audit guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on the state programs noted below occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

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

Member:		<u>Procedures Performed</u>
American Institute of Certified Public Accountants	Local Education Agencies Other Than Charter Schools:	
	Attendance	Yes
	Teacher Certification and Misassignments	Yes
	Kindergarten Continuance	Yes
	Independent Study	Yes
California Society of Certified Public Accountants	Continuation Education	Yes

	<u>Procedures Performed</u>
Instructional Time	Yes
Instructional Materials	Yes
Ratio of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	No (see below)
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	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 for Charter Schools	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 test the Early Retirement Incentive Program because the District did not participate in the program.

Opinion on State Compliance

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

Other Matters

The results of our auditing procedures disclosed instances of noncompliance with the requirements referred to above, which are required to be reported in accordance with *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel and which are described in the accompanying schedule of audit findings and questioned costs as Finding 2018-004 and Finding 2018-005. Our opinion is not modified with respect to matters identified.

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

A handwritten signature in black ink that reads "Jeanette L Garcia + Associates". The signature is written in a cursive, flowing style.

San Bernardino, California
December 17, 2018

Findings and Recommendations

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified, Going Concern

Internal control over financial reporting:
 Material weakness(es) identified? X Yes No
 Significant deficiencies identified? X Yes None Reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:
 Material weakness(es) identified? Yes X No
 Significant deficiencies identified? X Yes None reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Title 2, CFR Part 200? X Yes No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.367	Title IIA, Supporting Effective Instruction
10.555, 10.553	Child Nutrition Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$ 750,000

Auditee qualified as low-risk auditee? X Yes No

State Awards

Internal control over state programs:
 Material weakness(es) identified? Yes X No
 Significant deficiencies identified? X Yes None reported

Noncompliance material to financial statements noted? Yes X No

Type of auditor's report issued on compliance for state programs: Unmodified

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Section II – Financial Statement Findings

FINDING 2018-001
Code 30000
Financial Stability

The audit noted several conditions that in aggregate could affect the District’s financial stability and, possibly, its ability to continue as a going concern. The conditions are noted below:

Deficit Spending

Although the District has a slight operating surplus in 2016, the District has experienced continued deficit spending every year since 2014. Furthermore, the adopted budget for fiscal year 2019 includes another decrease to fund balance of \$3,182,547.

Reserve Requirement

For a District the size of Southern Kern Unified School District, the State recommends available reserves of at least 3% of total General Fund expenditures, other uses and transfers out. The District’s available reserves have decreased from 8.80% in 2014 to only -8.95% in 2018. The fiscal year 2019 budget includes available reserves of -9.66%, which is still below the State’s minimum requirement.

Long-Term Debt

As a result of implementing GASB Statements 75 and 68, the District is reporting significant unfunded liabilities for postemployment benefits other than pensions (OPEB) and its proportionate share of the CalPERS and CalSTRS Net Pension Liabilities. The combined total of these liabilities is \$58,495,551.

Turnover

The District has had significant turnover in the business office, which has resulted in the District employing four Chief Business Officers in the past five years. Additionally, the Superintendent left his position effective June 30, 2018.

RECOMMENDATION

The District must monitor its budgets to stop the trend of deficit spending. Cash flow must be closely monitored to avoid the need for interfund borrowing. Expenditures charged to the bond funds must be reviewed for allowability and the citizens’ oversight committee should review the expenditures closely. Due to the recent additions in the business office, the District may want to consider additional staff development to strengthen their knowledge and capabilities.

The continuation of the District as a going concern is dependent upon the District’s successful resolution of the above noted conditions.

DISTRICT RESPONSE

The District has worked closely with the County Office of Education to meet our fiscal obligations and continue operations. With the help of the community, bargaining units, and the County Office of Education, the District has worked to reduce costs, identify inefficiencies and return to fiscal stability. The District is targeting reductions of \$2-3 million in the 2019-20 fiscal year from general fund expenditures. The District is also actively attempting to negotiate with its bargaining units to assist with finding savings. Currently the District is spending below budget and if the trend continues, we will have reduced spending compared to the 2017-18 fiscal year. The goal of returning to fiscal solvency is in reach for the 2020-21 fiscal year.

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

FINDING 2018-002

Code 30000

Internal Control Over Financial Reporting

During the substantive portion of the audit, the auditor found numerous discrepancies in general ledger accounts, such as understatements and overstatements of payable and receivables. The majority of the adjustments related to federal and state restricted resources. It appears the District's system of internal control over financial reporting failed to detect these misstatements, due to inadequate monitoring of the accounting for categorical programs and inadequate reviewing of general ledger account balances.

RECOMMENDATION

The District needs to examine its system of internal control over financial reporting. The Business Department should analyze general ledger accounts on a periodic basis to ensure that balances are proper. Receivables and payables should be monitored to ensure that prior year balances are received or paid. Federal and state restricted resources should be closely monitored to ensure that end of year balances are correct and that all carryover balances are properly expended.

DISTRICT RESPONSE

We have been working with the County Office of Education to correct any past errors and move forward with the correct posting of transactions. Also, we have been monitoring all transactions on a daily, weekly and monthly basis to spot any discrepancies.

Section III – Federal Award Findings and Questioned Costs

FINDING 2018-003

Code 50000

Equipment Management

U.S. Department of Agriculture passed through
California Department of Education 10.555, 10.553 Child Nutrition Cluster

Specific Requirement: Local Education Agencies shall follow Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) for equipment acquired under Federal awards received from a Federal awarding agency. Which requires that equipment records must be maintained, a physical inventory of equipment must be taken and the results reconciled with the equipment records at least once every two years, and a control system must be used to safeguard equipment. Furthermore, 2 CFR section 200.313(d) requires LEAs to include a description of the property, a serial number or other identification number, the source of funding for the property, who holds title, the acquisition date, and cost of the equipment, the location, use and condition of the equipment, and any ultimate disposition data including the date of disposal and sale price of the item whose market value exceeds \$500 per item.

Condition: The District has not updated their equipment listing or performed a physical inventory of all equipment acquired with federal funding since April 2014 in order to be in compliance with Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). It was noted during testing that the physical inventory count was last performed during April 2014.

Questioned Costs: Unknown.

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Context: During our test of internal controls over equipment valued between \$500 and \$4,999, we were only provided with the physical asset inventory listing conducted by American Appraisal in April 2014.

Effect: The District does not have a updated equipment listing and is not performing a physical inventory of equipment at least once every two years to be in compliance with (2 CFR section 200.313(d)).

Cause: Unknown.

Recommendation: The District should update their equipment listing on a regular basis and perform a physical inventory of equipment with a market value of \$500 or more, at least once every two years.

District Response: The District has been working on implementing a fixed asset system and completed it in December 2018. Fixed assets and their identifying information had to be researched from the 2014 fiscal year. As our new system is complete, we will be able to accurately track and label all fixed assets moving forward.

Section IV – State Award Findings and Questioned Costs

FINDING 2018-004
Code 70000
Instructional Materials

Specific Requirements: Education Code Section 60119(1) requires that the governing board shall make determination through a resolution as to whether each pupil in each school in the district has sufficient textbooks, or instructional materials, or both in the appropriate subjects. The governing board is to hold a public hearing on or before the end of the eighth week from the first day pupils attended school for that year. The public hearing should be held at a time that encourages the attendance of teachers and parents of pupils of the district and should not take place during or immediately following school hours.

Condition: The public hearing was regarding the sufficiency of textbooks and other instructional materials held on the first day of the 9th week.

Questioned Costs: Not Applicable.

Context: We reviewed the board minutes and noted that the public hearing was held on the first day of the 9th week for textbooks or instructional materials.

Effect: The District is out of compliance with Education Code 60119(1).

Cause: Unknown.

Recommendation: The District should hold a public hearing prior to approving the resolution regarding the sufficiency of instructional materials. The meeting should be held on or before the eighth week from the first day pupils attended school for that year.

District's Response: The District has ensured through multiple reminders that this will be approved within the allocated time frame.

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2018

FINDING 2018-005

Code 40000

Unduplicated Local Control Funding Formula

Pupil Counts

Specific Requirement: Pursuant to Education Code Section 42238.02(b)(2) the LEA shall annually submit its enrolled free and reduced-price meal (FRPM) eligibility, foster youth, and English learner pupil-level records for enrolled pupils to the State Superintendent using the California Longitudinal Pupil Achievement Data System (CALPADS). Education Code Section 42238.02(b)(3)(B) requires Auditors to “review and validate certified aggregate English learner, foster youth, and free or reduced-price meal eligible pupil data for school districts and charter schools under its jurisdiction to ensure the data is reported accurately.”

Condition: We reviewed the District’s CALPADS Reports and supporting documentation and discovered 13 students at the Tropico Middle School and one student at Abraham Lincoln Alternative School who were listed as Eligible Free/Reduced Meal had no approved lunch application on file.

Questioned Costs: Not Applicable.

Context: Unduplicated pupil counts were tested at Tropico Middle School, Rare Earth High School and Abraham Lincoln Alternative School. After expanding our sample, a total of 49 students were tested and we found 14 exceptions.

Effect: The unduplicated LCFF student count is overstated by fourteen students. This results in a decrease of \$11,193 in LCFF funding.

	Tropico Middle School	Abraham Lincoln Alternative School
Enrollment per CALPADS	759	179
Total unduplicated pupil counts per CALPADS	575	143
Unduplicated pupil count adjustment based on eligibility for FRPM	(13)	(1)
Adjusted total unduplicated pupil count	562	142

Cause: Unknown

Recommendation: The District should revise its 2017/18 unduplicated local control funding formula (LCFF) student count to reflect the corrections noted. Further, the District should review a list of all Free/Reduced students to ensure that data is accurate. Annual income surveys should be used to update the information in CALPADS.

District Response: Due to the District becoming a Community Eligibility District, the District was no longer allowed to accept meal applications and was only allowed to collect alternative income forms. These forms were unfamiliar to families and caused confusion amongst staff and families. The District has implemented a new friendlier form that is electronic and simpler to report and record. This new form has proven successful and will help clarify the income reporting status of families.

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Prior Year Findings and Recommendations:

FINDING 2017-001
Code 30000
Financial Stability

The audit noted several conditions that in aggregate could affect the District's financial stability and, possibly, its ability to continue as a going concern. The conditions are noted below:

Deficit Spending

Although the District has a slight operating surplus in 2016, the District has experienced continued deficit spending every year since 2014. Furthermore, the adopted budget for fiscal year 2018 includes another decrease to fund balance of \$234,444.

Reserve Requirement

For a District the size of Southern Kern Unified School District, the State recommends available reserves of at least 3% of total General Fund expenditures, other uses and transfers out. The District's available reserves have decreased from 8.80% in 2014 to only 2.47% in 2017. The fiscal year 2018 budget includes available reserves of 2.04%, which is still below the State's minimum requirement.

Interfund Borrowing/Cash Flow

During the audit, we noted numerous interfund transfers of cash to cover expenditures, including payroll. We also noted that not all of the previous year's temporary loans have been fully paid. In addition, it appears that certain invoices are not paid in a timely manner due to cash flow issues.

General Obligation Bond Funds

It was noted during the audit that several expenditures charged to the 2014 bond funds (Building Fund 21) may not be appropriate uses of the bond proceeds. We noted that \$884,838.48 in salaries and benefits were charged to the bond funds for which we were not able to obtain justification. Administrator salaries and benefits are included in the charges to the bond funds. In addition, we noted several other inappropriate expenditures for supplies in the building fund that do not appear to be included in the approved project list presented to the voters. These expenditures may be required to be transferred back to the General Fund, putting an additional strain on the ending fund balance of the General Fund.

Long-Term Debt

As a result of implementing GASB Statements 45 and 68, the District is reporting significant unfunded liabilities for postemployment benefits other than pensions (OPEB) and its proportionate share of the CalPERS and CalSTRS Net Pension Liabilities. The combined total of these liabilities is \$39,865,906.

Turnover

While this appears to have stabilized, the District has had significant turnover in the business office, which has resulted in the District employing four Chief Business Officers in the past five years.

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

RECOMMENDATION

The District must monitor its budgets to stop the trend of deficit spending. Cash flow must be closely monitored to avoid the need for interfund borrowing. Expenditures charged to the bond funds must be reviewed for allowability and the citizens' oversight committee should review the expenditures closely. Due to the recent additions in the business office, the District may want to consider additional staff development to strengthen their knowledge and capabilities.

The continuation of the District as a going concern is dependent upon the District's successful resolution of the above noted conditions.

Status: Not Implemented. See Finding 2018-001.

FINDING 2017-002
Code 30000
Internal Control Over Financial Reporting

During the substantive portion of the audit, the auditor found numerous discrepancies in general ledger accounts, such as understatements and overstatements of payable and receivables as well as unrecorded prior year audit corrections for which we proposed adjustments. It appears the District's system of internal control over financial reporting failed to detect these misstatements.

RECOMMENDATION

The District needs to examine its system of internal control over financial reporting. The Business Department should analyze general ledger accounts on a periodic basis to ensure that balances are proper. Receivables and payables should be monitored to ensure that prior year balances are received or paid. Audit adjustments should be made in the District's accounting records so that beginning balances are properly reported.

Status: Not Implemented. See Finding 2018-002.

FINDING 2017-003
Code 30000
Revolving Cash Fund

We noted certain payments from the revolving cash fund that may not be appropriate uses of the revolving cash fund. We observed large mileage reimbursement checks, reimbursements for school tuition and professional memberships and reimbursements for high school sports equipment. This may not follow the District's current board policy on revolving cash, which includes a provision that no payments over \$1,000 may be made from the fund.

We noted a lack of monitoring controls over the revolving cash fund. We noted that the Superintendent approved his own revolving cash reimbursement requests and until recently, no one reviewed the bank reconciliations and the fund reconciliations done by the accountant.

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

RECOMMENDATION

The California School Accounting Manual defines the revolving cash fund as “An account used primarily for emergency or small disbursements.” Furthermore, Education Code Section 42821 prohibits checks over \$1,000 to be drawn on such an account. The District should review the recent activity in the revolving cash fund, compare it to current board policy and make policy and procedure changes as needed. Items to consider when reviewing the policies should include proper approval processes and allowable uses of the fund.

Status: Implemented.

FINDING 2017-004

Code 30000

Mileage Reimbursements/Car Allowances

We noted that several employees are being paid mileage for the use of their personal vehicle in addition to receiving a monthly car allowance. This appears to be double dipping, in that the employees are collecting double benefits for the mileage from the District. In addition, it appears that certain mileage reimbursements may be incorrect as far as the starting point. We observed mileage claims that occurred on the weekend but were from the District Office to the destination but the employee’s home is much closer to the destination than the District Office. As a result, the employee’s mileage claims may be overstated.

RECOMMENDATION

California Labor Code Section 2802 requires employers to reimburse employees for all necessary expenditures they incur because of their job. There are three accepted methods employers can use to reimburse employees for the use of their vehicle. Mileage reimbursements and car allowances are two of the three methods. The District should be using one or the other method for employee reimbursement, but one employee cannot receive both. In addition, mileage reimbursements should be reviewed for accuracy to ensure that only miles actually driven are claimed for reimbursement.

Status: Implemented.

FINDING 2017-005

Code 50000

Equipment Management

U.S. Department of Education passed through
California Department of Education 84.010 Title I

Specific Requirement: Local Education Agencies shall follow Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) for equipment acquired under Federal awards received from a Federal awarding agency. Which requires that equipment records must be maintained, a physical inventory of equipment must be taken and the results reconciled with the equipment records at least once every two years, and a control system must be used to safeguard equipment. Furthermore, 2 CFR section 200.313(d) requires LEAs to include a description of the property, a serial number or other identification number, the source of funding for the property, who holds title, the acquisition date, and cost of the equipment, the location, use and condition of the equipment, and any ultimate disposition data including the date of disposal and sale price of the item whose market value exceeds \$500 per item.

Condition: The District has not updated their equipment listing or performed a physical inventory of all equipment acquired with federal funding since April 2014 in order to be in compliance with Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal*

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Awards (Uniform Guidance). It was noted during testing that the physical inventory count was last performed during April 2014.

Questioned Costs: Unknown.

Context: During our test of internal controls over equipment valued between \$500 and \$4,999, we were only provided with the physical asset inventory listing conducted by American Appraisal in April 2014. We discussed the lack of more current documentation with District personnel and discovered that the last physical inventory count was last performed during April 2014 by American Appraisal.

Effect: The District does not have a updated equipment listing and is not performing a physical inventory of equipment at least once every two years to be in compliance with (2 CFR section 200.313(d)).
Cause: Unknown.

Recommendation: The District should update their equipment listing on a regular basis and perform a physical inventory of equipment with a market value of \$500 or more, at least once every two years.

Status: Not Implemented. See Finding 2018-003.

FINDING 2017-006
Code 40000
Unduplicated Local Control Funding Formula
Pupil Counts

Specific Requirement: Pursuant to Education Code Section 42238.02(b)(2) the LEA shall annually submit its enrolled free and reduced-price meal (FRPM) eligibility, foster youth, and English learner pupil-level records for enrolled pupils to the State Superintendent using the California Longitudinal Pupil Achievement Data System (CALPADS). Education Code Section 42238.02(b)(3)(B) requires Auditors to “review and validate certified aggregate English learner, foster youth, and free or reduced-price meal eligible pupil data for school districts and charter schools under its jurisdiction to ensure the data is reported accurately.”

Condition: We reviewed the District’s CALPADS Reports and supporting documentation and discovered five students at the Westpark Elementary School and one student at Rare Earth who were listed as Eligible Free/Reduced Meal had no approved lunch application on file.

Questioned Costs: Not Applicable.

Context: Unduplicated pupil counts were tested at Westpark Elementary School, Rare Earth High School and Abraham Lincoln Alternative School. Sixty-six students were tested and we found six exceptions.

Effect: The unduplicated LCFE student count is overstated by six students. This results in a decrease of approximately \$6,855 in LCFE funding.

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	Westpark Elementary School	Abraham Lincoln Alternative School
Enrollment per CALPADS	887	101
Total unduplicated pupil counts per CALPADS	629	58
Unduplicated pupil count adjustment based on eligibility for FRPM	(5)	(1)
Adjusted total unduplicated pupil count	624	57

Cause: Unknown

Recommendation: The District should revise its 2016/17 unduplicated local control funding formula (LCFF) student count to reflect the corrections noted. Further, the District should review a list of all Free/Reduced students to ensure that data is accurate.

Status: Not Implemented. See Finding 2018-005.