

MERCED UNION HIGH SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

JUNE 30, 2018

MERCED UNION HIGH SCHOOL DISTRICT

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FINANCIAL SECTION



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

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Merced Union High School District
Merced, California

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Merced Union High 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 - Change in Accounting Principles

As discussed in Note 1 and Note 15 to the financial statements, in 2018, the District adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 13, budgetary comparison schedule on page 72, schedule of changes in the District's total OPEB liability and related ratios on page 73, schedule of the District's proportionate share of the net OPEB liability - MPP program on page 74, schedule of the District's proportionate share of the net pension liability on page 75, and the schedule of District contributions on page 76, 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 Merced Union High School District's basic financial statements. The accompanying supplementary information such as the combining and individual non-major fund financial statements and Schedule of Expenditures of Federal Awards, as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2018, on our consideration of the Merced Union High School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Merced Union High 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 Merced Union High School District's internal control over financial reporting and compliance.

Vannink, Trini, Day & Co, LLP

Fresno, California
December 11, 2018



Merced Union High School District

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Merced Union High School District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2018, with comparative information for the year ended June 30, 2017. Please read it in conjunction with the District's financial statements, which immediately follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

The financial statements presented herein include all of the activities of the Merced Union High School District (the District) using the integrated approach as prescribed by GASB Statement Number 34.

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

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

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

The *Fiduciary Funds* are trust and agency funds. Trust funds focus reporting on net position and changes in net position, and agency funds report only a balance sheet and do not have a measurement focus.

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

The Primary unit of the government is the Merced Union High School District.

MERCED UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Position and the Statement of Activities

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

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

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

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

Governmental Activities - The District reports all of its services in this category. This includes the education of grade nine through grade twelve students, adult education students, the operation of child development activities, and the on-going effort to improve and maintain buildings and sites. Property taxes, state income taxes, user fees, interest income, federal, state and local grants, as well as general obligation bonds, finance these activities.

MERCED UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

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

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

THE DISTRICT AS TRUSTEE

Reporting the Merced Union High School District's Fiduciary Responsibilities

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

THE DISTRICT AS A WHOLE

Net Position

The District's total net position was \$14.0 million for the fiscal year ended June 30, 2018. Restricted net position, which totaled \$13.1 million, is reported separately to show legal constraints from debt covenants and enabling legislation that limit the School Board's ability to use net position for day-to-day operations. The analysis below focuses on the net position (Table 1) and change in net position (Table 2) of the District's governmental activities for the past two fiscal years.

MERCED UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

Table 1

(Amounts in millions)

	School District Activities		
	2018	2017, as Restated	Variance
Assets			
Current and other assets	\$ 56.0	\$ 60.6	\$ (4.6)
Capital assets	211.5	210.5	1.0
Total Assets	<u>267.5</u>	<u>271.1</u>	<u>(3.6)</u>
Deferred Outflows of Resources	<u>39.8</u>	<u>22.6</u>	<u>(2.6)</u>
Liabilities			
Current liabilities	10.4	12.4	(2.0)
Long-term obligations	154.4	159.1	(4.7)
Aggregate net pension liability	121.0	107.3	13.7
Total Liabilities	<u>285.8</u>	<u>278.8</u>	<u>(6.7)</u>
Deferred Inflows of Resources	<u>7.5</u>	<u>3.6</u>	<u>3.9</u>
Net Position			
Invested in capital assets, net of related debt	81.5	73.9	7.6
Restricted	13.1	20.7	(7.6)
Unrestricted	(80.6)	(83.3)	2.7
Total Net Position	<u>\$ 14.0</u>	<u>\$ 11.3</u>	<u>\$ 2.7</u>

The \$14.0 million in net position of governmental activities represents the accumulated results of all past years' operations. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – increased by \$2.7 million.

Changes in Net Position

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

MERCED UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

Table 2

(Amounts in millions)

	School District Activities		
	2018	2017	Variance
Revenues			
Program revenues:			
Charges for services	\$ 0.7	\$ 0.8	\$ (0.1)
Operating grants and contributions	23.9	24.3	(0.4)
General revenues:			
Federal and state aid not restricted	98.0	94.2	3.8
Property taxes	25.5	24.9	0.6
Other general revenues	7.6	6.5	1.1
Total Revenues	<u>155.7</u>	<u>150.7</u>	<u>5.0</u>
Expenses			
Instruction related	97.2	95.3	1.9
Pupil services	22.2	21.8	0.4
Administration	7.7	6.8	0.9
Plant services	15.7	14.9	0.8
Other	10.2	11.9	(1.7)
Total Expenses	<u>153.0</u>	<u>150.7</u>	<u>2.3</u>
Change in Net Position	<u>\$ 2.7</u>	<u>\$ -</u>	<u>\$ 2.7</u>

Governmental Activities

As reported in the *Statement of Activities*, the cost of all of our governmental activities this year was \$153.0 million as compared to \$150.7 million in the prior year. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$25.5 million because the cost was paid by those who benefited from the programs (\$0.7 million) or by other governments and organizations who subsidized certain programs with grants and contributions (\$23.9 million). We paid for the remaining "public benefit" portion of our governmental activities with \$105.6 million in Federal and State funds and other revenues, like interest, general entitlements, and charges for services.

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

MERCED UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

Table 3

(Dollar amounts in millions)	Total Cost of Services		Net Cost of Services	
	2018	2017	2018	2017
Instruction	\$ 97.2	\$ 95.3	\$ 80.1	\$ 77.4
Pupil services	22.2	21.8	15.7	15.7
Administration	7.7	6.8	7.0	6.3
Plant services	15.7	14.9	15.5	14.7
Other	10.2	11.9	10.1	11.5
Total	\$ 153.0	\$ 150.7	\$ 128.4	\$ 125.6

The District's net cost of activities for the current year was \$128.4 million as compared to \$125.6 million in the prior year. A majority of the District's expenses were related to the education and support of its students (78.0 percent).

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds, restricted and unrestricted, reported a combined fund balance of \$45.6 million, while the prior year reported a balance of \$48.3 million, which is a decrease of \$2.7 million from last year (Table 4).

Table 4

(Amounts in millions)	Balances	
	June 30, 2018	June 30, 2017
Major Governmental Funds		
General Fund	\$ 27.2	\$ 25.2
Bond Interest and Redemption Fund	9.2	14.9
Non-Major Governmental Funds	9.2	8.2
Total	\$ 45.6	\$ 48.3

The primary reasons for these changes are:

- Our General Fund is our principal operating fund. The fund balance in the General Fund increased from \$25.2 million to \$27.2 million. Although expenditures and transfers out in the General Fund increased substantially over the prior year, an increase in State funding was the primary reason for the increase in the fund.
- The Bond Interest and Redemption Fund decreased by \$5.7 million as debt service payments exceeded property taxes collected for debt service.
- Most of the District's Non-Major Funds showed little change from the prior year.

MERCED UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final amendment to the budget was adopted on June 20, 2018. A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in our annual report.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2018, the District had \$211.5 million in a broad range of capital assets, including land, buildings, and furniture and equipment, while at June 30, 2017, the net capital assets totaled \$210.5 million. This amount represents a net increase (including additions, deductions and depreciation) of approximately \$1.0 million.

Table 5

(Amounts in millions)

	Governmental Activities		
	2018	2017	Variance
Land	\$ 13.3	\$ 13.3	\$ -
Construction in progress	15.2	34.6	(19.4)
Buildings and improvements	175.0	155.3	19.7
Equipment	8.0	7.3	0.7
Total	\$ 211.5	\$ 210.5	\$ 1.0

This year's major additions included completion of two high school gyms. See Notes to Financial Statements for additional information on capital assets.

MERCED UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

Long-Term Obligations

At the end of this year, the District had \$154.4 million in long-term obligations outstanding versus \$159.1 million as restated from last year, a decrease of \$4.7 million. The decrease is primarily due to the annual principle payments on the Districts outstanding bonds.

Table 6

(Amounts in millions)	Governmental Activities		
	2018	2017, as Restated	Variance
General obligation bonds, net of premiums and discounts	\$ 129.9	\$ 136.3	\$ (6.4)
Compensated absences	0.3	0.5	(0.2)
Other postemployment benefits (OPEB) liability	22.3	21.3	1.0
Public agency retirement system (PARS)	1.9	1.0	0.9
Total	\$ 154.4	\$ 159.1	\$ (4.7)

The District's general obligation Moody's bond rating as of the most recent bond issuance was "Aa3". We present more detailed information regarding our long-term obligations in the Notes to the Financial Statements.

Net Pension Liability (NPL)

The District implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, which required the District to recognize its proportionate share of the unfunded pension obligation for CalSTRS and CalPERS. As of June 30, 2018, the District reported Deferred Outflows from pension activities of \$35.6 million, Deferred Inflows from pension activities of \$7.5 million, and a Net Pension Liability of \$121.0 million. We present more detailed information regarding our net pension liability in the Notes to the Financial Statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

2018-2019 General Fund Revenue Budget Assumptions

- 3.0 percent Local Control Funding Formula (LCFF) cost of living adjustment (COLA)
- 2.71 percent COLA on state and local share
- LCFF GAP funding is 100 percent
- Projected funded 2018-2019 average daily attendance (ADA) is 9,959
- Projected lottery revenue is \$146 per ADA for unrestricted lottery and \$48 per ADA for restricted instructional materials

MERCED UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

2018-2019 General Fund Expenditure Budget Assumptions

- 1.5 percent step and column increase
- Transfer Out of \$3 million to Fund 43, Special Reserve for Capital Outlay for facility projects; \$489,519 to Fund 12 Child Development; \$800,000 to Fund 13 for operations; \$525,000 to Fund 13 to bring up to standard; \$200,000 to Fund 13 for equipment replacement; \$83,880 to Fund 13 for increased food services per LCAP plan; \$750,000 to Fund 14 for deferred maintenance; and \$1,200,000 to Fund 15 Pupil Transportation for bus purchases
- Health Insurance cap of \$10,801.50 for classified and certificated and management \$10,161

Based upon the 2018-2019 budget the district will be able to meet its financial obligations for 2018-2019, for subsequent fiscal years 2019-2020 and 2020-2021, and maintain a reserve for uncertainties equal to ten percent of total expenditures.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

Scott Weimer
Assistant Superintendent/CBO, Business Services
Merced Union High School District
3430 A Street, Castle Airport
Atwater, California 95301

Telephone number: (209) 325-2030

MERCED UNION HIGH SCHOOL DISTRICT

STATEMENT OF NET POSITION JUNE 30, 2018

	Governmental Activities
ASSETS	
Deposits and investments	\$ 52,352,328
Receivables	3,476,929
Stores inventories	219,470
Nondepreciable capital assets	28,515,803
Capital assets being depreciated	277,201,822
Accumulated depreciation	(94,206,856)
Total Assets	267,559,496
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources related to pensions	35,648,683
Deferred outflows of resources related to debt refundings	3,210,442
Deferred outflows of resources related to total other postemployment benefits (OPEB)	979,035
Total Deferred Outflows of Resources	39,838,160
LIABILITIES	
Accounts payable	7,454,636
Unearned revenue	3,002,868
Long-term obligations:	
Current portion of long-term obligations other than pensions	5,827,740
Noncurrent portion of long-term obligations other than pensions	148,618,637
Total Long-Term Obligations	154,446,377
Aggregate net pension liability	120,964,644
Total Liabilities	285,868,525
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to pensions	7,481,685
NET POSITION	
Invested in capital assets, net of related debt	81,521,310
Restricted for:	
Debt service	9,151,250
Capital projects	1,823,030
Educational programs	2,011,675
Other activities	194,058
Unrestricted	(80,653,877)
Total Net Position	\$ 14,047,446

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

MERCED UNION HIGH SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenues and Changes in Net Position Governmental Activities
		Charges for Services and Sales	Operating Grants and Contributions	
Governmental Activities:				
Instruction	\$ 78,631,190	\$ 189,495	\$ 14,378,370	\$ (64,063,325)
Instruction-related activities:				
Supervision of instruction	4,568,658	393	1,102,205	(3,466,060)
Instructional library, media and technology	1,890,756	-	94,771	(1,795,985)
School site administration	12,076,285	20,636	1,229,588	(10,826,061)
Pupil services:				
Home-to-school transportation	4,134,546	4,379	771,004	(3,359,163)
Food services	5,688,891	423,569	3,955,756	(1,309,566)
All other pupil services	12,436,468	5,336	1,391,578	(11,039,554)
General administration:				
Data processing	1,732,186	-	-	(1,732,186)
All other general administration	5,942,061	20,811	677,416	(5,243,834)
Plant services	15,723,282	1,530	177,755	(15,543,997)
Ancillary services	2,775,765	-	77,493	(2,698,272)
Enterprise services	156,169	-	-	(156,169)
Interest on long-term obligations	4,491,138	-	-	(4,491,138)
Other outgo	2,773,629	510	31,720	(2,741,399)
Total Governmental-Type Activities	\$ 153,021,024	\$ 666,659	\$ 23,887,656	(128,466,709)
General revenues and subventions:				
				18,718,017
Property taxes, levied for general purposes				6,736,103
Property taxes, levied for debt service				86,844
Taxes levied for other specific purposes				97,996,515
Federal and State aid not restricted to specific purposes				564,198
Interest and investment earnings				107,551
Transfers between agencies				6,946,269
Miscellaneous				
Subtotal, General Revenues				131,155,497
Change in Net Position				2,688,788
Net Position - Beginning as Restated				11,358,658
Net Position - Ending				\$ 14,047,446

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

MERCED UNION HIGH SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2018**

	General Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds
ASSETS			
Deposits and investments	\$ 38,481,451	\$ 9,151,250	\$ 4,719,627
Receivables	2,499,459	-	977,470
Due from other funds	842,945	-	5,861,795
Stores inventories	117,089	-	102,381
Total Assets	\$ 41,940,944	\$ 9,151,250	\$ 11,661,273
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 5,868,363	\$ -	\$ 1,586,273
Due to other funds	5,861,753	-	842,987
Unearned revenue	3,002,868	-	-
Total Liabilities	14,732,984	-	2,429,260
FUND BALANCES			
Nonspendable	137,089	-	103,614
Restricted	1,675,985	9,151,250	2,249,164
Committed	1,275,920	-	1,294,756
Assigned	10,239,475	-	5,584,479
Unassigned	13,879,491	-	-
Total Fund Balances	27,207,960	9,151,250	9,232,013
Total Liabilities and Fund Balances	\$ 41,940,944	\$ 9,151,250	\$ 11,661,273

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

**Total
Governmental
Funds**

\$	52,352,328
	3,476,929
	6,704,740
	219,470
\$	<u>62,753,467</u>

\$	7,454,636
	6,704,740
	3,002,868
	<u>17,162,244</u>

	240,703
	13,076,399
	2,570,676
	15,823,954
	13,879,491
	<u>45,591,223</u>
\$	<u>62,753,467</u>

MERCED UNION HIGH SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION JUNE 30, 2018

Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:

Total Fund Balance - Governmental Funds		\$ 45,591,223
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
The cost of capital assets is	\$ 305,717,625	
Accumulated depreciation is	<u>(94,206,856)</u>	
Total capital assets		211,510,769
Deferred charges on refunding (the difference between the reacquisition price and net carrying amount of refunded debt) are capitalized and amortized over the remaining life of the new or old debt (whichever is shorter) and are included with governmental activities.		3,210,442
Deferred outflows of resources related to pensions represent a consumption of net position in a future period and is not reported in the District's funds. Deferred outflows of resources related to pensions at year-end consist of:		
Pension contributions subsequent to measurement date	10,532,192	
Net change in proportionate share of net pension liability	1,331,336	
Difference between projected and actual earnings on pension plan investments	1,165,930	
Differences between expected and actual experience in the measurement of the total pension liability.	1,530,174	
Changes of assumptions	<u>21,089,051</u>	
Total Deferred Outflows of Resources Related to Pensions		35,648,683
Deferred inflows of resources related to pensions represent an acquisition of net position that applies to a future period and is not reported in the District's funds. Deferred inflows of resources related to pensions at year-end consist of:		
Net change in proportionate share of net pension liability	(3,238,904)	
Difference between projected and actual earnings on pension plan investments	(2,323,992)	
Differences between expected and actual experience in the measurement of the total pension liability.	(1,521,965)	
Changes of assumptions	<u>(396,824)</u>	
Total Deferred Inflows of Resources Related to Pensions		(7,481,685)

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

MERCED UNION HIGH SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION, Continued
JUNE 30, 2018**

Deferred outflows of resources related to OPEB represent a consumption of net position in a future period and is not reported in the District's funds. Deferred outflows of resources related to OPEB at year-end consist of OPEB contributions subsequent to measurement date.		\$ 979,035
Net pension liability is not due and payable in the current period, and is not reported as a liability in the funds.		(120,964,644)
Long-term obligations, including general obligation bonds, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.		
Long-term obligations at year end consist of:		
General obligation bonds	\$ 126,320,193	
Bond premiums	3,901,458	
Bond discounts	(232,192)	
Compensated absences	336,973	
Other postemployment benefits (OPEB)	22,280,909	
Public agency retirement system	1,839,036	
Total long-term obligations		<u>(154,446,377)</u>
Total Net Position - Governmental Activities		<u>\$ 14,047,446</u>

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

MERCED UNION HIGH SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2018**

	General Fund	Bond Interest and Redemption Fund
REVENUES		
Local Control Funding Formula	\$ 112,253,584	\$ -
Federal sources	8,616,390	1,492,213
Other state sources	13,272,696	-
Other local sources	2,397,154	6,822,866
Total Revenues	136,539,824	8,315,079
EXPENDITURES		
Current		
Instruction	68,106,384	-
Instruction-related activities:		
Supervision of instruction	4,292,508	-
Instructional library, media and technology	1,724,968	-
School site administration	10,702,671	-
Pupil Services:		
Home-to-school transportation	4,810,482	-
Food services	64,135	-
All other pupil services	11,766,256	-
General administration:		
Data processing	1,653,549	-
All other general administration	5,406,338	-
Plant services	12,269,105	-
Ancillary services	2,686,827	-
Other outgo	2,773,629	-
Enterprise services	156,169	-
Facility acquisition and construction	2,431,668	-
Debt service		
Principal	-	30,810,000
Interest and other	-	3,228,566
Total Expenditures	128,844,689	34,038,566
Excess (Deficiency) of Revenues Over Expenditures	7,695,135	(25,723,487)
Other Financing Sources (Uses):		
Transfers in	71,000	-
Other sources	-	19,968,944
Transfers out	(5,730,703)	-
Net Financing Sources (Uses)	(5,659,703)	19,968,944
NET CHANGE IN FUND BALANCES	2,035,432	(5,754,543)
Fund Balance - Beginning	25,172,528	14,905,793
Fund Balance - Ending	\$ 27,207,960	\$ 9,151,250

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

Non-Major Governmental Funds	Total Governmental Funds
\$ 374,034	\$ 112,627,618
4,021,860	14,130,463
389,990	13,662,686
5,070,722	14,290,742
<u>9,856,606</u>	<u>154,711,509</u>
2,135,761	70,242,145
-	4,292,508
-	1,724,968
766,144	11,468,815
-	4,810,482
5,433,193	5,497,328
103,721	11,869,977
-	1,653,549
388,153	5,794,491
324,400	12,593,505
-	2,686,827
-	2,773,629
-	156,169
5,318,664	7,750,332
-	30,810,000
-	3,228,566
<u>14,470,036</u>	<u>177,353,291</u>
<u>(4,613,430)</u>	<u>(22,641,782)</u>
5,730,703	5,801,703
-	19,968,944
(71,000)	(5,801,703)
<u>5,659,703</u>	<u>19,968,944</u>
1,046,273	(2,672,838)
8,185,740	48,264,061
<u>\$ 9,232,013</u>	<u>\$ 45,591,223</u>

MERCED UNION HIGH SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2018

Total Net Change in Fund Balances - Governmental Funds **\$ (2,672,838)**
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures, however, for governmental activities, those costs are shown in the Statement of Net Position and allocated over their estimated useful lives as annual depreciation expenses in the Statement of Activities.

This is the amount by which capital outlays exceeds depreciation in the period.

Capital outlays	\$ 9,387,355	
Depreciation expense	<u>(8,376,167)</u>	1,011,188

Loss on disposal of capital assets is reported in the government-wide Statement of Net Position, but is not recorded in the governmental funds. (4,562)

In the Statement of Activities, certain operating expenses - compensated absences (vacations) and early retirement are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, the early retirement granted was more than obligations paid by \$861,150. Vacation used or paid was more than the amounts earned by \$173,357. (687,793)

In the governmental funds, pension costs are based on employer contributions made to pension plans during the year. However, in the Statement of Activities, pension expense is the net effect of all changes in the deferred outflows, deferred inflows and net pension liability during the year. (4,555,774)

In the governmental funds, OPEB costs are based on employer contributions made to OPEB plans during the year. However, in the Statement of Activities, OPEB expense is the net effect of all changes in the deferred outflows, deferred inflows and net OPEB liability during the year. 20,083

Proceeds received from the sale of bonds is a revenue in the governmental funds, but it increases long-term obligations in the Statement of Net Position and does not affect the Statement of Activities. (16,380,000)

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

MERCED UNION HIGH SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES, Continued FOR THE YEAR ENDED JUNE 30, 2018

Governmental funds report the effect of premiums, discounts, and the deferred amount on a refunding when the debt is first issued, whereas the amounts are deferred and amortized in the Statement of Activities.

Premium on issuance	\$ (3,588,944)
Premium amortization	11,161
Discount amortization	(7,036)
Deferred amount on refunding	3,210,442

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

General obligation bonds	30,810,000
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Interest on long-term obligations in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the Statement of Activities includes additional accumulated interest that was accreted on the District's capital appreciation general obligation bonds.

	<u>(4,477,139)</u>
Change in Net Position of Governmental Activities	<u>\$ 2,688,788</u>

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

MERCED UNION HIGH SCHOOL DISTRICT

**FIDUCIARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2018**

	Private-Purpose Trusts	Agency		
	Scholarships	Deferred Compensation	Student Body	Total
ASSETS				
Deposits and investments	\$ 1,584,077	\$ 1,114,610	\$ 1,214,200	\$ 3,912,887
LIABILITIES				
Due to student groups and employees	\$ -	\$ 1,114,610	\$ 1,214,200	\$ 2,328,810
NET POSITION				
Reserved for scholarships	\$ 1,584,077	\$ -	\$ -	\$ 1,584,077

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

MERCED UNION HIGH SCHOOL DISTRICT

**FIDUCIARY FUNDS
STATEMENT OF CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Private-Purpose Trusts Scholarships</u>
ADDITIONS	
Trust income	\$ 613,117
Contributions	17,909
Interest	3,286
Total Additions	<u>634,312</u>
DEDUCTIONS	
Scholarships awarded	547,667
Miscellaneous	90
Total Deductions	<u>547,757</u>
Change in Net Position	86,555
Net Position - Beginning	<u>1,497,522</u>
Net Position - Ending	<u>\$ 1,584,077</u>

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

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Merced Union High School District (the District) was established in 1915 and comprises the area of approximately 625 square miles located in Merced County. The District operates under a locally-elected five-member Board form of government and provides educational services to grades 9 - 12 as mandated by the State and/or Federal agencies. The District is currently operating schools in the cities of Atwater, Livingston, and Merced. The City of Merced has four campuses. Merced High School, Golden Valley High School, and El Capitan High School have classes at the ninth through twelfth grade levels. East Campus Educational Center (ECEC) supports five educational programs: Yosemite High School which serves as the District's continuation school; Sequoia High School which serves as the District's community day school, Independence High School which provides independent study opportunities; classes for students from Merced and Golden Valley High School; and the main facility for the Adult School Program is located at ECEC. The City of Atwater has two campuses. Atwater High School and Buhach Colony High School have classes at the ninth through twelfth grade levels. The City of Livingston has one campus. Livingston High School has classes at the ninth through twelfth grade levels.

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

Basis of Presentation - Fund Accounting

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

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

Major Governmental Funds

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

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Three funds currently defined as special revenue funds in the California State Accounting Manual (CSAM) do not meet the GASB Statement No. 54 special revenue fund definition. Specifically, Fund 15, Pupil Transportation Equipment Fund, Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects, and Fund 20, Special Reserve Fund for Postemployment Benefits, are not substantially composed of restricted or committed revenue sources. While these funds are authorized by statute and will remain open for internal reporting purposes, these funds function effectively as extensions of the General Fund, and accordingly have been combined with the General Fund for presentation in these audited financial statements.

As a result, the General Fund reflects an increase in assets of \$10,967,730.

Bond Interest and Redemption Fund The Bond Interest and Redemption Fund is used for the repayment of bonds issued for a District (*Education Code* Sections 15125-15262).

Non-Major Governmental Funds

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

Adult Education Fund The Adult Education Fund is used to account separately for Federal, State, and local revenues for restricted or committed for adult education programs and is to be expended for adult education purposes only.

Child Development Fund The Child Development Fund is used to account separately for Federal, State, and local revenues to operate child development programs and is to be used only for expenditures for the operation of child development programs.

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

Deferred Maintenance Fund The Deferred Maintenance Fund is used to account separately for revenues that are restricted or committed for deferred maintenance purposes (*Education Code* Section 17582).

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

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

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Capital Facilities Fund The Capital Facilities Fund is used primarily to account separately for monies received from fees levied on developers or other agencies as a condition of approval (*Education Code* Sections 17620-17626 and *Government Code* Section 65995 et seq.). Expenditures are restricted to the purposes specified in *Government Code* Sections 65970-65981 or to the items specified in agreements with the developer (*Government Code* Section 66006).

County School Facilities Fund The County School Facilities Fund is established pursuant to *Education Code* Section 17070.43 to receive apportionments from the 1998 State School Facilities Fund (Proposition 1A), the 2002 State School Facilities Fund (Proposition 47), the 2004 State School Facilities Fund (Proposition 55), the 2006 State School Facilities Fund (Proposition 1D), or the 2016 State School Facilities Fund (Proposition 51), authorized by the State Allocation Board for new school facility construction, modernization projects, and facility hardship grants, as provided in the Leroy F. Greene School Facilities Act of 1998 (*Education Code* Section 17070 et seq.).

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

Fiduciary Funds Fiduciary funds are used to account for assets held in trustee or agent capacity for others that cannot be used to support the district's own programs. The fiduciary fund category is split into two classifications: private-purpose trust funds and agency funds. The key distinction between trust and agency funds is that trust funds are subject to a trust agreement that affects the degree of management involvement and the length of time that the resources are held.

Trust funds are used to account for the assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District's trust funds are scholarship accounts. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Such funds have no equity accounts since all assets are due to individuals or entities at some future time. The District's agency fund accounts for student body (ASB) and deferred compensation accounts.

Basis of Accounting - Measurement Focus

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

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

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

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

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

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

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

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

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

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

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

Investments

Investments held at June 30, 2018, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in the county investment pool are determined by the program sponsor.

Stores Inventories

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

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the District. The District maintains a capitalization threshold of \$5,000 for equipment and \$15,000 for land, buildings and land improvements. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, but are expensed as incurred.

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

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

Interfund Balances

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

Compensated Absences

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

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

Premiums and Discounts

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

In governmental fund financial statements, debt premiums and discounts, as well as debt issuance costs are recognized in the current period. The face amount of the debt is reported as other financing sources. Premiums received on debt issuance are also reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds, are reported as debt service expenditures.

Deferred Outflows/Inflows of Resources

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

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

Pensions

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

Postemployment Benefits Other Than Pensions (OPEB)

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

Accounts Payable and Long-Term Obligations

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

Fund Balances - Governmental Funds

As of June 30, 2018, fund balances of the governmental funds are classified as follows:

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

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

Committed - amounts that can be used only for specific purposes determined by a formal action of the governing board. The governing board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through resolutions or other action as approved by the governing board.

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

Unassigned - all other spendable amounts.

Spending Order Policy

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

Minimum Fund Balance Policy

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

Net Position

Net position represents the difference between assets and liabilities. Net position net of investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. The government-wide financial statements report \$13,180,013 of restricted net position.

Interfund Activity

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

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Estimates

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

Property Tax

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

Change in Accounting Principles

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

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

The District has implemented the provisions of this Statement as of June 30, 2018.

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

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation;
- Reporting amounts previously reported as goodwill and "negative" goodwill;
- Classifying real estate held by insurance entities;
- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost;

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

The District has implemented the provisions of this Statement as of June 30, 2018.

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

The District has implemented the provisions of this Statement as of June 30, 2018.

New Accounting Pronouncements

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement.

This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO.

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

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JUNE 30, 2018

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

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

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

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

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

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

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

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The requirements of this Statement should be applied prospectively.

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2018, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 52,352,328
Fiduciary funds	3,912,887
Total Deposits and Investments	<u>\$ 56,265,215</u>

Deposits and investments as of June 30, 2018, consist of the following:

Cash on hand and in banks	\$ 1,267,047
Cash in revolving	21,232
Investments	54,976,936
Total Deposits and Investments	<u>\$ 56,265,215</u>

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Policies and Practices

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

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

General Authorizations

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

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

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Interest Rate Risk

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

Segmented Time Distribution

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

Investment Type	Fair Value	12 Months or Less	13 - 24 Months	25 - 60 Months	More Than 60 Months
Mutual Funds	\$ 1,889,666	\$ 1,889,666	\$ -	\$ -	\$ -
Certificates of Deposit	756,574	756,574	-	-	-
County Pool	51,661,889	-	51,661,889	-	-
Total	<u>\$ 54,308,129</u>	<u>\$ 2,646,240</u>	<u>\$ 51,661,889</u>	<u>\$ -</u>	<u>\$ -</u>

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the *California Government Code* requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2018, \$856,557 of the District's bank balances were exposed to custodial credit risk because it was uninsured and uncollateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

Custodial Credit Risk - Investments

This is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. Of the investment in Mutual Funds and Certificates of Deposit of \$2,646,240, the District has a custodial credit risk exposure of \$2,146,240, because the related securities are uninsured, unregistered and held by the brokerage firm which is also the counterparty for these securities. The District does not have a policy limiting the amount of securities that can be held by counterparties.

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 3 - FAIR VALUE MEASUREMENTS

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

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

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

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

Uncategorized - Investments in the Merced County Treasury Investment Pool, Mutual Funds, and Certificates of Deposit are not measured using the input levels above because the District's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at \$1.00 net asset value per share.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2018, consist of intergovernmental grants, entitlements, and local sources. All receivables are considered collectible in full.

	General Fund	Non-Major Governmental Funds	Total
Federal Government			
Categorical aid	\$ 754,342	\$ 593,097	\$ 1,347,439
State Government			
State grants and apportionments	1,346,844	189,343	1,536,187
Local Sources	398,273	195,030	593,303
Total	<u>\$ 2,499,459</u>	<u>\$ 977,470</u>	<u>\$ 3,476,929</u>

MERCED UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 5 - CAPITAL ASSETS

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

	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018
Governmental Activities				
Capital Assets not being depreciated				
Land	\$ 13,296,486	\$ -	\$ -	\$ 13,296,486
Construction in progress	34,581,538	1,530,325	20,892,546	15,219,317
Total Capital Assets Not Being Depreciated	<u>47,878,024</u>	<u>1,530,325</u>	<u>20,892,546</u>	<u>28,515,803</u>
Capital Assets being depreciated				
Land improvements	21,725,498	794,050	-	22,519,548
Buildings and improvements	206,567,387	26,012,186	-	232,579,573
Furniture and equipment	20,224,829	1,943,340	65,468	22,102,701
Total Capital Assets Being Depreciated	<u>248,517,714</u>	<u>28,749,576</u>	<u>65,468</u>	<u>277,201,822</u>
Less Accumulated Depreciation				
Land improvements	13,935,477	639,378	-	14,574,855
Buildings and improvements	59,025,977	6,512,884	-	65,538,861
Furniture and equipment	12,930,141	1,223,905	60,906	14,093,140
Total Accumulated Depreciation	<u>85,891,595</u>	<u>8,376,167</u>	<u>60,906</u>	<u>94,206,856</u>
Governmental Activities Capital Assets, Net	<u>\$210,504,143</u>	<u>\$21,903,734</u>	<u>\$20,897,108</u>	<u>\$211,510,769</u>

Depreciation expense was charged to governmental functions as follows:

Governmental Activities	
Instruction	\$ 4,931,797
Instructional library, media, and technology	87,821
School site administration	59,972
Home-to-school transportation	167,940
Food services	81,150
All other pupil services	6,603
Data processing	76,327
All other general administration	16,644
Plant services	2,947,913
Total Depreciation Expenses, Governmental Activities	<u>\$ 8,376,167</u>

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 6 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund receivable and payable balances at June 30, 2018, are as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Major Governmental Fund		
General	\$ 842,945	\$ 5,861,753
Non-Major Governmental Funds		
Adult Education	4,402	118,133
Child Development	-	21,399
Cafeteria	53,125	703,413
Deferred Maintenance	750,000	-
Building	-	42
Capital Facilities	740,664	-
County School Facilities	317,176	-
Special Reserve Capital Outlay	3,996,428	-
Total Non-Major Governmental Funds	<u>5,861,795</u>	<u>842,987</u>
Total All Governmental Funds	<u>\$ 6,704,740</u>	<u>\$ 6,704,740</u>

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

The General Fund owes the Cafeteria Non-Major Governmental Fund for unpaid 2017-2018 student lunches.	\$ 8,621
The General Fund owes the Cafeteria Non-Major Governmental Fund for a payroll repayment adjustment and indirect cost adjustment.	786
The General Fund owes the Cafeteria Non-Major Governmental Fund for LCAP services contribution.	43,718
The General Fund owes the Deferred Maintenance Non-Major Governmental Fund for maintenance and operations costs.	750,000
The General Fund owes the Adult Education Non-Major Governmental Fund for a payroll repayment adjustment.	1,318
The General Fund owes the Adult Education Non-Major Governmental Fund for indirect costs.	3,084
The General Fund owes the Capital Facilities Non-Major Governmental Fund for LCAP capital project costs.	740,622
The General Fund owes the County School Facilities Non-Major Governmental Fund for LCAP capital project costs.	317,176
The General Fund owes the Special Reserve Capital Outlay Non-Major Governmental Fund for LCAP facilities project contribution and capital project costs.	3,996,428
The Adult Education Non-Major Governmental Fund owes the General Fund for retiree health cost contributions.	1,497
The Adult Education Non-Major Governmental Fund owes the General Fund for indirect costs.	116,636
The Child Development Non-Major Governmental Fund owes the General Fund for retiree health cost contributions.	123
The Child Development Non-Major Governmental Fund owes the General Fund for indirect costs.	21,276
The Cafeteria Non-Major Governmental Fund owes the General Fund for retiree health cost distributions.	845
The Cafeteria Non-Major Governmental Fund owes the General Fund for indirect costs.	252,568
The Cafeteria Non-Major Governmental Fund owes the General Fund to repay a loan.	450,000
The Building Non-Major Governmental Fund owes the Capital Facilities Non-Major Governmental Fund to clear remaining fund balance.	42
Total	<u>\$ 6,704,740</u>

MERCED UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

Operating Transfers

Interfund transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Interfund transfers for the year ended June 30, 2018, consist of the following:

The General Fund transferred to the Adult Education Non-Major Governmental Fund for cash flow purposes.	\$ 71,000
The General Fund transferred to the Cafeteria Non-Major Governmental Fund to supplement fund operations and for LCAP technological contributions.	1,248,184
The General Fund transferred to the Deferred Maintenance Non-Major Governmental Fund for future repair and maintenance projects.	922,000
The General Fund transferred to the Child Development Non-Major Governmental Fund to supplement fund operations.	489,519
The General Fund transferred to the Special Reserve Capital Outlay Non-Major Governmental Fund for future capital outlay.	3,000,000
The Adult Education Non-Major Governmental Fund transferred to the General Fund to repay a loan.	71,000
Total	<u><u>\$ 5,801,703</u></u>

NOTE 7 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2018, consist of the following:

	General Fund	Non-Major Governmental Funds	Total
Vendor payables	\$ 2,608,217	\$ 1,462,523	\$ 4,070,740
Salaries and benefits payable	568,805	123,750	692,555
State apportionment	888,061	-	888,061
Deferred payroll	1,803,280	-	1,803,280
Total	<u><u>\$ 5,868,363</u></u>	<u><u>\$ 1,586,273</u></u>	<u><u>\$ 7,454,636</u></u>

MERCED UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 8 - UNEARNED REVENUE

Unearned revenue at June 30, 2018, consists of the following:

	<u>General Fund</u>
Federal financial assistance	\$ 389,974
State categorical aid	<u>2,612,894</u>
Total	<u>\$ 3,002,868</u>

MERCED UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 9 - LONG-TERM OBLIGATIONS

Summary

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

	Balance July 1, 2017, as Restated	Additions and Accretion	Deductions	Balance June 30, 2018	Due in One Year
1999 Capital Appreciation Bonds, Series A	\$ 15,558,223	\$ 777,686	\$ 2,185,000	\$ 14,150,909	\$ 2,235,000
2009 Current Interest Bonds, Series A	20,445,000	-	18,970,000	1,475,000	675,000
2009 Capital Appreciation Bonds, Series A	2,865,246	257,486	-	3,122,732	-
2011 Current Interest Bonds, Series B-1	25,000,000	-	9,655,000	15,345,000	1,805,000
2011 Capital Appreciation Bonds, Series B	959,364	115,338	-	1,074,702	-
2011 Capital Appreciation Bonds, Series C	20,112,314	1,326,746	-	21,439,060	85,000
2015 Capital Appreciation Refunding Bonds	33,198,170	1,770,244	-	34,968,414	-
2008 Current Interest Bonds, Series D	12,945,000	-	-	12,945,000	-
2008 Capital Appreciation Bonds, Series D	5,189,737	229,639	-	5,419,376	30,000
2017 Current Interest Refunding Bonds	-	16,380,000	-	16,380,000	375,000
Bond Premium	323,675	3,588,944	11,161	3,901,458	-
Bond Discount	(239,228)	-	(7,036)	(232,192)	-
Compensated absences - net	510,330	-	173,357	336,973	-
Public Agency Retirement System	977,886	1,483,890	622,740	1,839,036	622,740
Other postemployment benefits, including Medicare Premium Payment Program	21,321,957	1,058,216	99,264	22,280,909	-
Total	<u>\$ 159,167,674</u>	<u>\$ 26,988,189</u>	<u>\$ 31,709,486</u>	<u>\$ 154,446,377</u>	<u>\$ 5,827,740</u>

The General Obligation Bonds are paid through the Bond Interest and Redemption Fund with proceeds from the assessment on property owners in the applicable boundaries. The compensated absences liability and Other Postemployment Benefits are paid by the fund that the employee worked. The Public Agency Retirement System obligations are paid for by the General Fund.

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Bond Issue	Issue Date	Maturity Date	Interest Rate %	Original Issue	Bonds Outstanding July 1, 2017	Accreted/ Issued	Redeemed	Bonds Outstanding June 30, 2018
Capital Appreciation Series A	8/1/99	8/1/24	5.4-5.75	\$ 9,221,061	\$ 15,558,223	\$ 777,686	\$ 2,185,000	\$ 14,150,909
Current Interest Series A	4/17/09	8/1/19	2.0-5.0	23,560,000	20,445,000	-	18,970,000	1,475,000
Capital Appreciation Series A	4/17/09	8/1/34	5.4-5.75	1,439,944	2,865,246	257,486	-	3,122,732
Current Interest Series B-1	2/16/11	8/1/25	5.379-6.716	25,000,000	25,000,000	-	9,655,000	15,345,000
Capital Appreciation Series B-1	2/16/11	8/1/27	7.05-7.15	462,545	959,364	115,338	-	1,074,702
Capital Appreciation Series C	11/9/11	8/1/37	3.80-6.72	30,489,821	20,112,314	1,326,746	-	21,439,060
Capital Appreciation 2015	5/27/15	8/1/51	3.80-7.42	29,749,417	33,198,170	1,770,244	-	34,968,414
Current Interest Series D	9/24/15	8/1/45	2.00-5.00	13,000,000	12,945,000	-	-	12,945,000
Capital Appreciation Series D	9/24/15	8/1/40	1.63-4.84	4,799,586	5,189,737	229,639	-	5,419,376
Current Interest 2017	12/6/17	8/1/29	5.0	16,380,000	-	16,380,000	-	16,380,000
Total				<u>\$154,102,374</u>	<u>\$136,273,054</u>	<u>\$20,857,139</u>	<u>\$30,810,000</u>	<u>\$126,320,193</u>

The Merced Union High School District 1999 General Obligation Bonds, Series A, in the aggregate principal amount of \$24,631,061, were issued by the Board of Supervisors of the County of Merced on behalf of the Merced Union High School District. The Series A Bonds represent a general obligation of the District, payable solely from ad valorem property taxes levied and collected by the County of Merced. Interest with respect to the Current Interest Series A Bonds accrues from August 1, 1999, and is payable semiannually commencing February 1, 2000. The Capital Appreciation Series A Bonds are dated the date of delivery of the Series A Bonds and accrete interest from such date, compounded semiannually on February 1 and August 1 of each year, commencing February 1, 2000.

The Merced Union High School District 2008 General Obligation Bonds, Series A, in the aggregate principal amount of \$24,999,994, were issued by the Board of Supervisors of the County of Merced on behalf of the Merced Union High School District. The Series A Bonds represent a general obligation of the District, payable solely from ad valorem property taxes levied and collected by the County of Merced. Interest with respect to the Current Interest Series A Bonds accrues from August 1, 2009, and is payable semiannually commencing February 1, 2010. The Capital Appreciation Series A Bonds are dated the date of delivery of the Series A Bonds and accrete interest from such date, compounded semiannually on February 1 and August 1 of each year, commencing August 1, 2009 with the exception of the Capital Accretion Bonds which mature May 1, 2034 which compound semiannually on May 1 and November 1 of each year, commencing November 1, 2009.

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

The Merced Union High School District Election of 2008 General Obligation Bonds, Series B (Tax-Exempt) in the aggregate principal amount of \$462,565 (the "Series B Bonds") and the Merced Union High School District Election of 2008 General Obligation Bonds, Series B-1 (Qualified School Construction Bonds - Direct Payment to District) (Federally Taxable) in the aggregate principal amount of \$25,000,000 (the "Series B-1 Bonds," together with the Series B Bonds, the "Bonds," were authorized at an election of the registered voters of the District held on November 4, 2008, at which the requisite 55 percent or more of the persons voting on the proposition voted to authorize the issuance and sale of not-to-exceed \$149,450,000 principal amount of general obligation bonds. Interest with respect to the Current Interest Bonds accrues from the date of initial delivery thereof and is payable semiannually of February 1 and August 1 of each year, commencing August 1, 2011. The Current Interest Bonds are issuable as fully registered Bonds in denomination of \$5,000 principal amount or any integral multiple thereof. The Capital Appreciation Bonds are dated the date of initial delivery thereof and accrete interest from such date, compounded semiannually on February 1 and August 1 of each year, commencing on August 1, 2011. The Capital Appreciation Bonds are issuable in denominations of \$5,000 Maturity Value or any integral multiple thereof, except for one odd denomination if necessary.

The Merced Union High School District Election of 2008 General Obligation Bonds, Series C in the aggregate principal amount of \$30,489,821 (the "Bonds") were authorized at an election of the registered voters of the Merced Union High School District (the "District") held on November 4, 2008, at which the requisite 55 percent or more of the persons voting on the proposition voted to authorize the issuance and sale of not-to-exceed \$149,450,000 principal amount of general obligation bonds. The Bonds will be dated as of the date of their initial delivery (the "Date of Delivery"). The Bonds will be issued as capital appreciation bonds, such that the Bonds will not bear interest on a current basis, but will instead accrete interest from the Date of Delivery, compounded semiannually on February 1 and August 1 of each year, commencing on February 1, 2012. The Bonds are issuable in denominations of \$5,000 Maturity Value or any integral multiple thereof. A bond discount in the amount of \$274,408 will be capitalized and amortized over the life of the bonds.

The Merced Union High School District 2015 General Obligation Refunding Bonds were issued to advance refund a portion of the outstanding Election of 2008 General Obligation Bonds, Series C and pay the costs of issuance of the Bonds. The Bonds will be issued as capital appreciation bonds. The Bonds will accrete interest from their Date of Delivery, compounded semiannually on February 1 and August 1 of each year, commencing August 1, 2015. The Bonds are issuable in denominations of \$5,000 Maturity Value, or any integral multiple thereof.

On September 24, 2015, the District issued Election of 2008, Series D General Obligation Bonds, in the amount of \$17,799,586 to finance the repair, upgrading, acquisition, construction and equipping of certain District property and facilities, and to pay the costs of issuing the Bonds. The Bonds, were issued as current interest and capital appreciation bonds. Interest on the current interest bonds is payable on each February 1 and August 1 to maturity, commencing February 1, 2016. The capital appreciation bonds accrete interest from their date of delivery, compounded semiannually on February 1 and August 1 of each year, commencing February 1, 2016. The bonds were issued at a premium in the amount of \$345,997 which will be amortized over the life of the bonds.

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

The Merced Union High School District 2017 General Obligation Refunding Bonds were issued to advance refund a portion of the outstanding Election of 2008 General Obligation Bonds, Series A and pay the costs of issuance of the Bonds. The Bonds will be issued as current interest bonds. The Bonds will accrete interest from their Date of Delivery, compounded semiannually on February 1 and August 1 of each year, commencing August 1, 2018. The Bonds are issuable in denominations of \$5,000 Maturity Value, or any integral multiple thereof.

Debt Service Requirements to Maturity

1999 Capital Appreciation, Series A - Accretion Summary:

<u>Maturity</u>	Accreted Obligation	Unaccreted Interest	Final Maturity
2019	\$ 2,235,000	\$ -	\$ 2,235,000
2020	2,159,325	125,675	2,285,000
2021	2,090,088	249,912	2,340,000
2022	2,016,204	373,796	2,390,000
2023	1,949,154	495,846	2,445,000
2024-2025	3,701,138	1,353,862	5,055,000
Total	<u>\$ 14,150,909</u>	<u>\$ 2,599,091</u>	<u>\$ 16,750,000</u>

2009 Current Interest, Series A - Payment Summary:

<u>Fiscal Year</u>	Principal	Interest to Maturity	Total
2019	\$ 675,000	\$ 45,500	\$ 720,500
2020	800,000	16,000	816,000
Total	<u>\$ 1,475,000</u>	<u>\$ 61,500</u>	<u>\$ 1,536,500</u>

2009 Capital Appreciation, Series A - Accretion Summary:

<u>Maturity</u>	Accreted Obligation	Unaccreted Interest	Final Maturity
2031	\$ 1,497,648	\$ 1,782,352	\$ 3,280,000
2032	977,184	2,532,816	3,510,000
2035	647,900	3,532,100	4,180,000
Total	<u>\$ 3,122,732</u>	<u>\$ 7,847,268</u>	<u>\$ 10,970,000</u>

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

2011 Current Interest, Series B-1 - Payment Summary:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2019	\$ 1,805,000	\$ 972,870	\$ 2,777,870
2020	1,670,000	873,071	2,543,071
2021	1,735,000	775,944	2,510,944
2022	1,820,000	671,567	2,491,567
2023	1,915,000	558,435	2,473,435
2024-2026	6,400,000	874,759	7,274,759
Total	<u>\$ 15,345,000</u>	<u>\$ 4,726,646</u>	<u>\$ 20,071,646</u>

2011 Capital Appreciation, Series B - Accretion Summary:

<u>Maturity</u>	<u>Accreted Obligation</u>	<u>Unaccreted Interest</u>	<u>Final Maturity</u>
2027	\$ 554,976	\$ 855,024	\$ 1,410,000
2028	519,726	890,274	1,410,000
Total	<u>\$ 1,074,702</u>	<u>\$ 1,745,298</u>	<u>\$ 2,820,000</u>

2011 Capital Appreciation, Series C - Accretion Summary:

<u>Maturity</u>	<u>Accreted Obligation</u>	<u>Unaccreted Interest</u>	<u>Final Maturity</u>
2019	\$ 85,000	\$ -	\$ 85,000
2020	76,816	3,184	80,000
2021	82,332	7,668	90,000
2022	82,517	12,483	95,000
2023	82,080	17,920	100,000
2024-2028	1,513,362	936,638	2,450,000
2029-2033	8,155,261	9,739,739	17,895,000
2034-2038	11,361,692	23,713,308	35,075,000
Total	<u>\$ 21,439,060</u>	<u>\$ 34,430,940</u>	<u>\$ 55,870,000</u>

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

2015 General Obligation Refunding Bond:

<u>Maturity</u>	<u>Accreted Obligation</u>	<u>Unaccreted Interest</u>	<u>Final Maturity</u>
2039-2043	\$ 13,206,203	\$ 27,388,797	\$ 40,595,000
2044-2048	12,522,046	38,682,954	51,205,000
2049-2052	9,240,165	41,189,835	50,430,000
Total	<u>\$ 34,968,414</u>	<u>\$ 107,261,586</u>	<u>\$ 142,230,000</u>

2008 Current Interest, Series D - Payment Summary

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2019	\$ -	\$ 547,800	\$ 547,800
2020	-	547,800	547,800
2021	-	547,800	547,800
2022	-	547,800	547,800
2023	-	547,800	547,800
2024-2028	-	2,739,000	2,739,000
2029-2033	-	2,739,000	2,739,000
2034-2038	-	2,739,000	2,739,000
2039-2043	5,455,000	2,485,400	7,940,400
2044-2046	7,490,000	360,600	7,850,600
Total	<u>\$ 12,945,000</u>	<u>\$ 13,802,000</u>	<u>\$ 26,747,000</u>

2008 Capital Appreciation, Series D - Accretion Summary

<u>Maturity</u>	<u>Accreted Obligation</u>	<u>Unaccreted Interest</u>	<u>Final Maturity</u>
2019	\$ 30,000	\$ -	\$ 30,000
2020	53,911	1,089	55,000
2021	66,934	3,066	70,000
2022	83,538	6,462	90,000
2023	98,450	11,550	110,000
2024-2028	727,759	207,241	935,000
2029-2033	862,411	587,589	1,450,000
2034-2038	947,121	1,137,879	2,085,000
2039-2041	2,549,252	4,385,748	6,935,000
Total	<u>\$ 5,419,376</u>	<u>\$ 6,340,624</u>	<u>\$ 11,760,000</u>

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

2017 General Obligation Refunding Bond

Fiscal Year	Principal	Interest to Maturity	Total
2019	\$ 375,000	\$ 534,625	\$ 909,625
2020	-	800,250	800,250
2021	810,000	800,250	1,610,250
2022	950,000	759,750	1,709,750
2023	1,095,000	712,250	1,807,250
2024-2028	8,240,000	2,565,000	10,805,000
2029-2030	4,910,000	375,000	5,285,000
Total	<u>\$ 16,380,000</u>	<u>\$ 6,547,125</u>	<u>\$ 22,927,125</u>

Compensated Absences

The long-term portion of compensated absences for the District at June 30, 2018, amounted to \$336,973.

Early Retirement

The District has obligations to the Public Agency Retirement System totaling \$1,839,036 for early retirement incentives granted to terminated employees. Payments will be made as follows:

Year Ending June 30,	PARS Payment
2019	\$ 622,740
2020	622,740
2021	296,778
2022	296,778
Total	<u>\$ 1,839,036</u>

Net Other Postemployment Benefit (OPEB) Liability

For the fiscal year ended June 30, 2018, the District reported net OPEB liability, deferred outflows of resources, and OPEB expense for the following plans:

OPEB Plan	Net OPEB Liability	Deferred Outflows of Resources	OPEB Expense
District Plan	\$ 21,562,235	\$ 979,035	\$ 79,181
Medicare Premium Payment (MPP) Program	718,674	-	(99,264)
Total	<u>\$ 22,280,909</u>	<u>\$ 979,035</u>	<u>\$ (20,083)</u>

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

The details of each plan are as follows:

District Plan

Plan Administration

The District's governing board administers the Postemployment Benefits Plan (the Plan). The Plan is a single-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB) for eligible retirees and their spouses. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

Plan Membership

At June 30, 2017, the Plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits payments	75
Active employees	985
Total	<u>1,060</u>

Benefits Provided

The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Benefits are provided through a third-party insurer, and the full cost of benefits is covered by the Plan. The District's governing board has the authority to establish and amend the benefit terms as contained within the negotiated labor agreements.

Contributions

The benefit payment requirements of the Plan members and the District are established and may be amended by the District, the Merced Union High School District Teachers Association (MUHSDTA), the local California Service Employees Association (CSEA), and unrepresented groups. The benefit payment is based on projected pay-as-you-go financing requirements as determined annually through the agreements with the District, MUHSDTA, CSEA, and the unrepresented groups. For fiscal year 2017-2018, the District paid \$979,035 in benefits.

Total OPEB Liability of the District

The District's total OPEB liability of \$21,562,235 was measured as of June 30, 2017, by an actuarial valuation as of that date.

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Actuarial Assumptions

The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75 percent
Salary increases	2.75 percent, average, including inflation
Investment rate of return	3.5 percent, net of OPEB plan investment expense, including inflation
Healthcare cost trend rates	4 percent for 2017 and thereafter

The discount rate was based on the Bond Buyer 20-bond General Obligation Index.

Mortality rates were based on the 2009 CalSTRS Mortality Table for certificated employees and the 2014 CalPERS Active Mortality for Miscellaneous Employees Table for classified employees. Mortality rates vary by age and sex. (Unisex mortality rates are not often used as individual OPEB benefits do not depend on the mortality table used.) If employees die prior to retirement, past contributions are available to fund benefits for employees who live to retirement. After retirement, death results in benefit termination or reeducation. Although higher mortality rates reduce service costs, the mortality assumption is not likely to vary from employer to employer.

The actual assumptions used in the June 30, 2017 valuation were based on the results of an actual experience study for the period July 1, 2016 to June 30, 2017.

Changes in the Total OPEB Liability

	<u>Total OPEB Liability</u>
Balance at June 30, 2016	\$ 20,504,019
Service cost	1,176,212
Interest	722,942
Benefit payments	(840,938)
Net change in total OPEB liability	<u>1,058,216</u>
Balance at June 30, 2017	<u><u>\$ 21,562,235</u></u>

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

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

<u>Discount Rate</u>	<u>Total OPEB Liability</u>
1% decrease (2.5%)	\$ 23,236,786
Current discount rate (3.5%)	21,562,235
1% increase (4.5%)	20,006,165

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

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

<u>Healthcare Cost Trend Rates</u>	<u>Total OPEB Liability</u>
1% decrease (3%)	\$ 20,294,003
Current healthcare cost trend rate (4%)	21,562,235
1% increase (5%)	22,641,936

OPEB Expense and Deferred Outflows of Resources related to OPEB

For the year ended June 30, 2018, the District recognized OPEB expense of \$79,181. At June 30, 2018, the District reported deferred outflows of resources for the amount paid by the District for OPEB as the benefits come due subsequent to measurement date of \$979,035.

Medicare Premium Payment (MPP) Program

Plan Description

The Medicare Premium Payment (MPP) Program is administered by the California State Teachers' Retirement System (CalSTRS). The MPP Program is a cost-sharing multiple-employer other postemployment benefit plan (OPEB) established pursuant to Chapter 1032, Statutes 2000 (SB 1435). CalSTRS administers the MPP Program through the Teachers' Health Benefits Fund (THBF).

A full description of the MPP Program regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2016 annual actuarial valuation report, Medicare Premium Payment Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at:

<http://www.calstrs.com/member-publications.j>

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Benefits Provided

The MPP Program pays Medicare Part A premiums and Medicare Parts A and B late enrollment surcharges for eligible members of the State Teachers Retirement Plan (STRP) Defined Benefit (DB) Program who were retired or began receiving a disability allowance prior to July 1, 2012 and were not eligible for premium free Medicare Part A. The payments are made directly to the Centers for Medicare and Medicaid Services (CMS) on a monthly basis.

The MPP Program is closed to new entrants as members who retire after July 1, 2012, are not eligible for coverage under the MPP Program.

The MPP Program is funded on a pay-as-you go basis from a portion of monthly District benefit payments. In accordance with California *Education Code* Section 25930, benefit payments that would otherwise be credited to the DB Program each month are instead credited to the MPP Program to fund monthly program and administrative costs. Total redirections to the MPP Program are monitored to ensure that total incurred costs do not exceed the amount initially identified as the cost of the program.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the OPEB

At June 30, 2018, the District reported a liability of \$718,674 for its proportionate share of the net OPEB liability for the MPP Program. The net OPEB liability was measured as of June 30, 2016, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB Plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2017 and June 30, 2016, respectively, was 0.1708 percent, and 0.1748 percent, resulting in a net decrease in the proportionate share of 0.0040 percent.

For the year ended June 30, 2018, the District recognized OPEB expense of \$(99,264).

Actuarial Methods and Assumptions

The total OPEB liability for the MPP Program as of June 30, 2016, was determined based on a financial reporting actuarial valuation that used the June 30, 2016 assumptions presented in the table below. The June 30, 2017 total OPEB liability was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total OPEB liability to June 30, 2017, using the assumptions listed in the following table:

Measurement Date	June 30, 2017	June 30, 2016
Valuation Date	June 30, 2016	June 30, 2016
Experience Study	July 1, 2010 through June 30, 2016	July 1, 2010 through June 30, 2015
Actuarial Cost Method	Entry age normal	Entry age normal
Investment Rate of Return	3.58%	2.85%
Medicare Part A Premium Cost Trend Rate	3.70%	3.70%
Medicare Part B Premium Cost Trend Rate	4.10%	4.10%

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

For the valuation as of June 30, 2016, CalSTRS used custom mortality tables based on RP2000 Series tables issued by the Society of Actuaries, adjusted to fit CalSTRS specific experience through June 30, 2015. For the valuation as of June 30, 2017, CalSTRS changed the mortality assumptions based on the July 1, 2010 through June 30, 2015, experience study adopted by the board in February 2017. CalSTRS now uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among the members. The projection scale was set equal to 110 percent of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table, issued by the Society of Actuaries.

Assumptions were made about future participation (enrollment) into the MPP Program because CalSTRS is unable to determine which members not currently participating meet all eligibility criteria for enrollment in the future. Assumed enrollment rates were derived based on past experience and are stratified by age with the probability of enrollment diminishing as the members' age increases. This estimated enrollment rate was then applied to the population of members who may meet criteria necessary for eligibility and are not currently enrolled in the MPP Program. Based on this, the estimated number of future enrollments used in the financial reporting valuation was 571 or an average of 0.32 percent of the potentially eligible population (177,763).

The MPP Program is funded on a pay-as-you-go basis with contributions generally being made at the same time and in the same amount as benefit payments and expenses coming due. Any funds within the MPP Program as of June 30, 2017 and 2016, were to manage differences between estimated and actual amounts to be paid and were invested in the Surplus Money Investment Fund, which is a pooled investment program administered by the State Treasurer.

Discount Rate

The discount rate used to measure the total OPEB liability as of June 30, 2017 and 2016 was 3.58 percent and 2.85 percent, respectively. The MPP Program is funded on a pay-as-you-go basis as described in Note 1, and under the pay-as-you-go method, the OPEB Plan's fiduciary net position was not projected to be sufficient to make projected future benefit payments. Therefore, a discount rate of 3.58 percent and 2.85 percent, which is the Bond Buyer 20-Bond GO Index from Bondbuyer.com as of June 30, 2017 and 2016, respectively, was applied to all periods of projected benefit payments to measure the total OPEB liability.

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

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

Discount Rate	Net OPEB Liability
1% decrease (2.58%)	\$ 795,622
Current discount rate (3.58%)	718,674
1% increase (4.58%)	643,826

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Medicare Costs Trend Rates

The following presents the District's proportionate share of the net OPEB liability calculated using the current discount rate, as well as what the net pension liability would be if it were calculated using Medicare costs trend rates that are one percent lower or higher than the current rates:

<u>Medicare Costs Trend Rate</u>	<u>Net OPEB Liability</u>
1% decrease (2.7% Part A and 3.1% Part B)	\$ 649,432
Current medicare costs trend rate (3.7% Part A and 4.1% Part B)	718,674
1% increase (4.7% Part A and 5.1% Part B)	787,225

MERCED UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 10 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total
Nonspendable				
Revolving cash	\$ 20,000	\$ -	\$ 1,233	\$ 21,233
Stores inventories	117,089	-	102,381	219,470
Total Nonspendable	<u>137,089</u>	<u>-</u>	<u>103,614</u>	<u>240,703</u>
Restricted				
Educational programs	1,675,985	-	335,690	2,011,675
Food service	-	-	90,444	90,444
Capital projects	-	-	1,823,030	1,823,030
Debt service	-	9,151,250	-	9,151,250
Total Restricted	<u>1,675,985</u>	<u>9,151,250</u>	<u>2,249,164</u>	<u>13,076,399</u>
Committed				
Pupil Transportation	1,275,920	-	-	1,275,920
Adult education programs	-	-	429,709	429,709
Deferred maintenance projects	-	-	865,047	865,047
Total Committed	<u>1,275,920</u>	<u>-</u>	<u>1,294,756</u>	<u>2,570,676</u>
Assigned				
Retiree benefits	1,728,051	-	-	1,728,051
LCAP special capital projects	859,843	-	-	859,843
LCAP CTE planning	697,663	-	-	697,663
CTE projects	3,243,075	-	-	3,243,075
Retiree self-pay	324,928	-	-	324,928
Projects from one time State funding	3,324,095	-	-	3,324,095
E-rate	61,820	-	-	61,820
Capital projects	-	-	5,584,479	5,584,479
Total Assigned	<u>10,239,475</u>	<u>-</u>	<u>5,584,479</u>	<u>15,823,954</u>
Unassigned				
Reserve for economic uncertainties	13,879,491	-	-	13,879,491
Total	<u>\$ 27,207,960</u>	<u>\$ 9,151,250</u>	<u>\$ 9,232,013</u>	<u>\$ 45,591,223</u>

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 11 - RISK MANAGEMENT

Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2018, the District contracted with Self Insured Schools of California for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

Workers' Compensation

For fiscal year 2018, the District participated in the Merced County Schools Insurance Group, an insurance purchasing pool. The intent of the Merced County Schools Insurance Group is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Merced County Schools Insurance Group. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all districts in the Merced County Schools Insurance Group. Each participant pays its workers' compensation premium based on its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage. A participant will then either receive money from or be required to contribute to the "equity-pooling fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the Merced County Schools Insurance Group. Participation in the Merced County Schools Insurance Group is limited to districts that can meet the Merced County Schools Insurance Group selection criteria.

Employee Medical Benefits

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

NOTE 12 - EMPLOYEE RETIREMENT SYSTEMS

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

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

<u>Pension Plan</u>	<u>Collective Net Pension Liability</u>	<u>Collective Deferred Outflows of Resources</u>	<u>Collective Deferred Inflows of Resources</u>	<u>Collective Pension Expense</u>
CalSTRS	\$ 87,260,594	\$ 25,084,716	\$ 7,084,861	\$ 8,745,287
CalPERS	33,704,050	10,563,967	396,824	6,342,679
Total	<u>\$ 120,964,644</u>	<u>\$ 35,648,683</u>	<u>\$ 7,481,685</u>	<u>\$ 15,087,966</u>

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

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

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

Benefits Provided

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

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

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

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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

	STRP Defined Benefit Program	
	On or before	On or after
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	10.25%	9.205%
Required employer contribution rate	14.43%	14.43%
Required state contribution rate	9.328%	9.328%

Contributions

Required member, District and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2018, are presented above and the District's total contributions were \$7,699,242.

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

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

Total net pension liability, including State share:

District's proportionate share of net pension liability	\$ 87,260,594
State's proportionate share of the net pension liability associated with the District	51,622,631
Total	<u>\$ 138,883,225</u>

The net pension liability was measured as of June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. The District's proportionate share for the measurement period June 30, 2017 and June 30, 2016, respectively was 0.0944 percent and 0.0983 percent, resulting in a net decrease in the proportionate share of 0.0039 percent.

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

For the year ended June 30, 2018, the District recognized pension expense of \$8,745,287. In addition, the District recognized pension expense and revenue of \$5,196,313 for support provided by the State. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 7,699,242	\$ -
Net change in proportionate share of net pension liability	896,732	3,238,904
Difference between projected and actual earnings on pension plan investments	-	2,323,992
Differences between expected and actual experience in the measurement of the total pension liability	322,698	1,521,965
Changes of assumptions	16,166,044	-
Total	<u>\$ 25,084,716</u>	<u>\$ 7,084,861</u>

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

The deferred inflows of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	<u>Deferred Inflows of Resources</u>
2019	\$ (1,932,021)
2020	1,461,971
2021	210,807
2022	(2,064,749)
Total	<u>\$ (2,323,992)</u>

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ 2,070,164
2020	2,070,164
2021	2,070,164
2022	2,070,165
2023	2,022,903
Thereafter	2,321,045
Total	<u>\$ 12,624,605</u>

Actuarial Methods and Assumptions

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

Valuation date	June 30, 2016
Measurement date	June 30, 2017
Experience study	July 1, 2010 through June 30, 2015
Actuarial cost method	Entry age normal
Discount rate	7.10%
Investment rate of return	7.10%
Consumer price inflation	2.75%
Wage growth	3.50%

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

MERCED UNION HIGH 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. The best estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant (Pension Consulting Alliance-PCA) as an input to the process. The actuarial investment rate of return assumption was adopted by the board in February 2017 in conjunction with the most recent experience study. For each future valuation, CalSTRS consulting actuary (Milliman) reviews the return assumption for reasonableness based on the most current capital market assumptions. Best estimates of 20-year geometrically-linked real rates of return and the assumed asset allocation for each major asset class for the year ended June 30, 2017, are summarized in the following table:

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

Discount Rate

The discount rate used to measure the total pension liability was 7.10 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.10 percent) and assuming that contributions, benefit payments and administrative expense occurred midyear. Based on these assumptions, the STRP's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

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

Discount Rate	Net Pension Liability
1% decrease (6.10%)	\$ 128,126,256
Current discount rate (7.10%)	87,260,594
1% increase (8.10%)	54,095,341

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

California Public Employees Retirement System (CalPERS)

Plan Description

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

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

Benefits Provided

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

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

	School Employer Pool (CalPERS)	
	On or before	On or after
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.00%	6.50%
Required employer contribution rate	15.531%	15.531%

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2018, are presented above and the total District contributions were \$2,832,950.

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

As of June 30, 2018, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$33,704,050. The net pension liability was measured as of June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2017 and June 30, 2016, respectively was 0.1412 percent and 0.1407 percent, resulting in a net increase in the proportionate share of 0.0005 percent.

For the year ended June 30, 2018, the District recognized pension expense of \$6,342,679. 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	\$ 2,832,950	\$ -
Net change in proportionate share of net pension liability	434,604	-
Difference between projected and actual earnings on pension plan investments	1,165,930	-
Differences between expected and actual experience in the measurement of the total pension liability	1,207,476	-
Changes of assumptions	4,923,007	396,824
Total	<u>\$ 10,563,967</u>	<u>\$ 396,824</u>

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

The deferred outflows of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows of Resources
2019	\$ (31,593)
2020	1,345,230
2021	490,755
2022	(638,462)
Total	<u>\$ 1,165,930</u>

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ 2,242,625
2020	2,204,315
2021	1,721,323
Total	<u>\$ 6,168,263</u>

Actuarial Methods and Assumptions

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

Valuation date	June 30, 2016
Measurement date	June 30, 2017
Experience study	July 1, 1997 through June 30, 2011
Actuarial cost method	Entry age normal
Discount rate	7.15%
Investment rate of return	7.15%
Consumer price inflation	2.75%
Wage growth	Varies by entry age and service

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

The mortality table used was developed based on CalPERS-specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.

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

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	47%	5.38%
Global debt securities	19%	2.27%
Inflation assets	6%	1.39%
Private equity	12%	6.63%
Real estate	11%	5.21%
Infrastructure and Forestland	3%	5.36%
Liquidity	2%	-0.90%

Discount Rate

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

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

Discount Rate	Net Pension Liability
1% decrease (6.15%)	\$ 49,589,459
Current discount rate (7.15%)	33,704,050
1% increase (8.15%)	20,525,774

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Social Security

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

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of \$4,198,010 (9.328 percent of annual payroll). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

Grants

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2018.

Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2018.

Operating Leases

The District has entered into various operating leases for buildings and equipment with lease terms in excess of one year. None of these agreements contain purchase options. All agreements contain a termination clause providing for cancellation after a specified number of days written notice to lessors, but it is unlikely that the District will cancel any of the agreements prior to the expiration date.

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Construction Commitments

As of June 30, 2018, the District had the following commitments with respect to the unfinished capital projects:

Capital Projects	Remaining Construction Commitment	Expected Date of Completion
Atwater High School shop roofing project	\$ 55,180	July 2018
California Clean Energy Job Act project	618,220	January 2019
Livingston High School shop	71,604	October 2018
Livingston High School bleachers	1,473,054	June 2019
Atwater High School shop	103,320	October 2018
Golden Valley High School amphitheater	59,500	June 2019
Sequoia High School canopy	170,042	August 2018
Merced High School 300 wing restroom	342,131	December 2018
Livingston High School pool restroom	254,401	May 2019
Merced High School sewer replacement	907,500	June 2019
Merced High School football concession	226,316	June 2019
Golden Valley High School softball field	319,095	May 2019
Total	\$ 4,600,363	

NOTE 14 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS AND JOINT POWERS AUTHORITIES

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

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

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

During the year ended June 30, 2018, the District made payment of \$9,916,998 to SISC III for medical, dental and vision insurance.

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

During the year ended June 30, 2018, the District made payment of \$732,102 to SISC II for property and liability insurance.

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

The District has appointed two members to the governing board of MCSIG.

During the year ended June 30, 2018, the District made payment of \$1,873,092 to MCSIG for workers' compensation insurance.

NOTE 15 - RESTATEMENT OF PRIOR YEAR NET POSITION

The District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in the current year. As a result, the effect on the current fiscal year is as follows:

Government-Wide Financial Statements

Net Position - Beginning	\$ 29,032,724
Inclusion of net OPEB liability from the adoption of GASB Statement No. 75	<u>(17,674,066)</u>
Net Position - Beginning as Restated	<u><u>\$ 11,358,658</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

MERCED UNION HIGH SCHOOL DISTRICT

**GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2018**

	Budgeted Amounts		Actual	Variances -
	Original	Final		Favorable (Unfavorable)
				Final to Actual
REVENUES				
Local Control Funding Formula	\$ 109,582,845	\$ 112,000,814	\$ 112,253,584	\$ 252,770
Federal sources	7,556,815	8,882,655	8,616,390	(266,265)
Other state sources	11,057,662	13,435,491	13,272,696	(162,795)
Other local sources	1,504,235	1,724,799	2,397,154	672,355
Total Revenues ¹	129,701,557	136,043,759	136,539,824	496,065
EXPENDITURES				
Current				
Certificated Salaries	53,173,547	53,776,837	53,714,072	62,765
Classified salaries	18,194,360	18,051,265	18,091,079	(39,814)
Employee benefits	28,689,546	29,149,325	28,918,196	231,129
Books and supplies	6,805,941	7,598,874	6,261,137	1,337,737
Services and operating expenditures	16,661,326	18,593,951	16,394,804	2,199,147
Other outgo	1,736,429	2,323,402	2,386,893	(63,491)
Capital outlay	317,659	1,543,852	3,078,508	(1,534,656)
Total Expenditures ¹	125,578,808	131,037,506	128,844,689	2,192,817
Excess (Deficiency) of Revenues Over Expenditures	4,122,749	5,006,253	7,695,135	2,688,882
Other Financing Sources (Uses):				
Transfers in	285,000	1,417,600	71,000	(1,346,600)
Transfers out	(7,631,219)	(11,706,373)	(5,730,703)	5,975,670
Net Financing Sources (Uses)	(7,346,219)	(10,288,773)	(5,659,703)	4,629,070
NET CHANGE IN FUND BALANCES	(3,223,470)	(5,282,520)	2,035,432	7,317,952
Fund Balance - Beginning	25,172,528	25,172,528	25,172,528	-
Fund Balance - Ending	\$ 21,949,058	\$ 19,890,008	\$ 27,207,960	\$ 7,317,952

¹ Due to the consolidation of Fund 15, Pupil Transportation Fund, Fund 17, Special Reserve Non-Capital Fund, and Fund 20, Special Reserve Postemployment Benefits Fund for reporting purposes into the General Fund, additional revenues and expenditures pertaining to these other funds are included in the actual revenues and expenditures, however, are not included in the original and final General Fund budgets.

See accompanying note to required supplementary information.

MERCED UNION HIGH SCHOOL DISTRICT

**SCHEDULE OF CHANGES IN THE DISTRICT'S TOTAL OPEB LIABILITY
AND RELATED RATIOS
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>2018</u>
Total OPEB Liability	
Service cost	\$ 1,176,212
Interest	722,942
Benefit payments	<u>(840,938)</u>
Net change in total OPEB liability	1,058,216
Total OPEB liability - beginning	<u>20,504,019</u>
Total OPEB liability - ending	<u><u>\$ 21,562,235</u></u>
Covered payroll	<u>N/A ¹</u>
District's total OPEB liability as a percentage of covered payroll	<u>N/A ¹</u>

¹ The District's OPEB Plan is not administered through a trust and contributions are not made based on a measure of pay; therefore, no measure of payroll is presented.

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

See accompanying note to required supplementary information.

MERCED UNION HIGH SCHOOL DISTRICT

**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET
OPEB LIABILITY - MPP PROGRAM
FOR THE YEAR ENDED JUNE 30, 2018**

Year ended June 30,	<u>2018</u>
District's proportion of the net OPEB liability	<u>0.1708%</u>
District's proportionate share of the net OPEB liability	<u>\$ 718,674</u>
District's covered-employee payroll	<u>N/A ¹</u>
District's proportionate share of the net OPEB liability as a percentage of it's covered-employee payroll	<u>N/A ¹</u>
Plan fiduciary net position as a percentage of the total OPEB liability	<u>0.01%</u>

¹ As of June 30, 2012, active members are no longer eligible for future enrollment in the MPP Program; therefore, the covered payroll disclosure is not applicable.

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

See accompanying note to required supplementary information.

MERCED UNION HIGH SCHOOL DISTRICT

**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET
PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>2018</u>	<u>2017</u>
CalSTRS		
District's proportion of the net pension liability	<u>0.0944%</u>	<u>0.0983%</u>
District's proportionate share of the net pension liability	\$ 87,260,594	\$ 79,480,214
State's proportionate share of the net pension liability associated with the District	<u>51,622,631</u>	<u>45,246,668</u>
Total	<u>\$ 138,883,225</u>	<u>\$ 124,726,882</u>
District's covered - employee payroll	<u>\$ 52,277,591</u>	<u>\$ 50,087,838</u>
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	<u>166.92%</u>	<u>158.68%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>69%</u>	<u>70%</u>
CalPERS		
District's proportion of the net pension liability	<u>0.1412%</u>	<u>0.1407%</u>
District's proportionate share of the net pension liability	<u>\$ 33,704,050</u>	<u>\$ 27,786,182</u>
District's covered - employee payroll	<u>\$ 17,974,316</u>	<u>\$ 16,865,300</u>
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	<u>187.51%</u>	<u>164.75%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>72%</u>	<u>74%</u>

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

See accompanying note to required supplementary information.

<u>2016</u>	<u>2015</u>
<u>0.0995%</u>	<u>0.0974%</u>
\$ 67,020,319	\$ 56,914,202
<u>35,446,361</u>	<u>34,367,253</u>
<u>\$ 102,466,680</u>	<u>\$ 91,281,455</u>
<u>\$ 45,747,275</u>	<u>\$ 43,806,339</u>
<u>146.50%</u>	<u>129.92%</u>
<u>74%</u>	<u>77%</u>
<u>0.1361%</u>	<u>0.1352%</u>
<u>\$ 20,064,360</u>	<u>\$ 15,344,640</u>
<u>\$ 14,889,330</u>	<u>\$ 14,183,840</u>
<u>134.76%</u>	<u>108.18%</u>
<u>79%</u>	<u>83%</u>

MERCED UNION HIGH SCHOOL DISTRICT

**SCHEDULE OF DISTRICT CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>2018</u>	<u>2017</u>
CalSTRS		
Contractually required contribution	\$ 7,699,242	\$ 6,576,521
Contributions in relation to the contractually required contribution	<u>7,699,242</u>	<u>6,576,521</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered - employee payroll	<u>\$ 53,355,800</u>	<u>\$ 52,277,591</u>
Contributions as a percentage of covered - employee payroll	<u>14.43%</u>	<u>12.58%</u>
 CalPERS		
Contractually required contribution	\$ 2,832,950	\$ 2,496,273
Contributions in relation to the contractually required contribution	<u>2,832,950</u>	<u>2,496,273</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered - employee payroll	<u>\$ 18,240,616</u>	<u>\$ 17,974,316</u>
Contributions as a percentage of covered - employee payroll	<u>15.531%</u>	<u>13.888%</u>

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

See accompanying note to required supplementary information.

<u>2016</u>	<u>2015</u>
\$ 5,374,425	\$ 4,062,358
<u>5,374,425</u>	<u>4,062,358</u>
<u>\$ -</u>	<u>\$ -</u>
\$ 50,087,838	\$ 45,747,275
<u>10.73%</u>	<u>8.88%</u>
\$ 1,998,032	\$ 1,752,623
<u>1,998,032</u>	<u>1,752,623</u>
<u>\$ -</u>	<u>\$ -</u>
\$ 16,865,300	\$ 14,889,330
<u>11.847%</u>	<u>11.771%</u>

MERCED UNION HIGH SCHOOL DISTRICT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2018

NOTE 1 - PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

The District employs budget control by object codes and by individual appropriation accounts. Budgets are prepared on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United State of America as prescribed by the Governmental Accounting Standards Board and provisions of the California *Education Code*. The governing board is required to hold a public hearing and adopt an operating budget no later than July 1 of each year. The adopted budget is subject to amendment throughout the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption with the legal restriction that expenditures cannot exceed appropriations by major object account.

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for.

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

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

This schedule presents information on the District's changes in the total OPEB liability, including beginning and ending balances. In the future, as data becomes available, ten years of information will be presented.

Schedule of the District's Proportionate Share of the Net OPEB Liability - MPP Program

This schedule presents information on the District's proportionate share of the net OPEB Liability - MPP Program and the plans' fiduciary net position. In the future, as data becomes available, ten years of information will be presented.

Changes in Benefit Terms - There were no changes in the benefit terms since the previous valuation.

Changes of Assumptions - The plan rate of investment return assumption was changed from 2.85 percent to 3.58 percent since the previous valuation.

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

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

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

Changes of Assumptions - The CalSTRS plan rate of investment return assumption was changed from 7.60 percent to 7.10 percent since the previous valuation. The CalPERS plan rate of investment return assumption was changed from 7.65 percent to 7.15 percent since the previous valuation.

MERCED UNION HIGH SCHOOL DISTRICT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2018

Schedule of District Contributions

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

SUPPLEMENTARY INFORMATION

MERCED UNION HIGH SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed Through California Department of Education (CDE):			
Adult Education - Basic	84.002A	14508	\$ 126,059
Adult Education - Secondary Education	84.002	13978	59,847
Adult Education - English Literacy	84.002A	14109	51,390
Title I - Part A, Basic	84.010	14329	3,904,099
Title I - Part G, Advanced Placement Fee Assistance	84.330B	14831	12,884
Title II - Part A, Supporting Effective Instruction	84.367	14341	356,754
Title II - Part A, Administrator Training	84.367	14344	5,854
Title III - English Language Acquisition - IEP	84.365	15146	21,787
Title III - English Language Acquisition - LEP	84.365	14346	88,455
Title IV - Part B, 21st Century Community Learning	84.287	14349	1,724,587
Title X - McKinney-Vento Homeless	84.196	14332	77,663
Career and Technical Education, Section 112	84.048	14894	413,925
Special Education, Basic Local Assistance	84.027	13379	1,439,164
Special Education, Mental Health Services	84.027A	14468	71,441
Total U.S. Department of Education			<u>8,353,909</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed Through CDE:			
Child Nutrition Cluster:			
Child Nutrition School Programs-Lunch	10.555	13391	2,469,049
Child Nutrition School Programs-Needy Breakfast	10.553	13526	882,201
Child Nutrition School Programs-Basic Breakfast	10.553	13525	4,707
Child Nutrition School Programs-Meal Supplements	10.555	13391	53,824
Child Nutrition School Programs-Summer Program	10.559	13004	93,980
Food Distribution - Commodities	10.555	13391	267,663
Subtotal, Child Nutrition Cluster			<u>3,771,424</u>
Child Nutrition School Programs-Family Day Care	10.558	13665	13,140
Total U.S. Department of Agriculture			<u>3,784,564</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed Through California Department of Health Care Services:			
Medi-Cal Administrative Activities (Medicaid)	93.778	10060	417,874
Medi-Cal Billing Option (Medicaid)	93.778	10013	81,903
Total U.S. Department of Health and Human Services			<u>499,777</u>
Total Federal Financial Assistance			<u>\$ 12,638,250</u>

See accompanying note to supplementary information.

MERCED UNION HIGH SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2018

ORGANIZATION

The Merced Union High School District was established in 1915 and comprises the area of approximately 625 square miles located in Merced County. The District operates six high schools, one continuation school, one community day school, and one adult school. There were no boundary changes during the year.

GOVERNING BOARD

MEMBER	OFFICE	TERM EXPIRES
Dave Honey	President	2018
John Medearis	Vice President	2020
Julio Valadez	Clerk	2020
Richard Lopez	Member	2018
Greg Opinski	Member	2018

ADMINISTRATION

Alan Peterson	Superintendent
Scott Weimer	Assistant Superintendent/CBO
Yvonne Eagle	Director of Fiscal Services

See accompanying note to supplementary information.

MERCED UNION HIGH SCHOOL DISTRICT

**SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Second Period Report</u>	<u>Annual Report</u>
Regular ADA		
Ninth through twelfth	9,872.68	9,781.15
Extended Year Special Education		
Ninth through twelfth	2.97	2.97
Special Education, Nonpublic, Nonsectarian Schools		
Ninth through twelfth	3.25	3.21
Extended Year Special Education, Nonpublic, Nonsectarian Schools		
Ninth through twelfth	0.15	0.15
Community Day School		
Ninth through twelfth	96.64	99.13
Total ADA	<u>9,975.69</u>	<u>9,886.61</u>

See accompanying note to supplementary information.

MERCED UNION HIGH SCHOOL DISTRICT

**SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2018**

Grade Level	1986-1987 Minutes Requirement	2017-2018 Actual Minutes	Number of Days		Status
			Traditional Calendar	Multitrack Calendar	
Grades 9 - 12					
Grade 9	64,800	64,816	180	N/A	Complied
Grade 10	64,800	64,816	180	N/A	Complied
Grade 11	64,800	64,816	180	N/A	Complied
Grade 12	64,800	64,816	180	N/A	Complied

See accompanying note to supplementary information.

MERCED UNION HIGH SCHOOL DISTRICT

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

There were no adjustments to the Unaudited Actual Financial Report which required reconciliation to the audited financial statements at June 30, 2018.

See accompanying note to supplementary information.

MERCED UNION HIGH SCHOOL DISTRICT

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2018**

	(Budget) 2019 ¹	2018	2017	2016 ³
GENERAL FUND				
Revenues	\$ 142,411,906	\$ 136,391,076	\$ 131,785,451	\$ 121,316,602
Other sources and transfers in	-	776,000	2,051,092	4,468,373
Total Revenues and Other Sources ⁴	142,411,906	137,167,076	133,836,543	125,784,975
Expenditures	134,978,274	127,836,314	126,321,924	112,669,728
Other uses and transfers out	7,048,399	10,958,579	6,700,263	8,277,473
Total Expenditures and Other Uses ⁴	142,026,673	138,794,893	133,022,187	120,947,201
INCREASE/(DECREASE) IN FUND BALANCE	<u>\$ 385,233</u>	<u>\$ (1,627,817)</u>	<u>\$ 814,356</u>	<u>\$ 4,837,774</u>
ENDING FUND BALANCE	<u>\$ 13,302,587</u>	<u>\$ 12,917,354</u>	<u>\$ 14,545,171</u>	<u>\$ 13,730,815</u>
AVAILABLE RESERVES²	<u>\$ 14,202,667</u>	<u>\$ 13,879,491</u>	<u>\$ 13,302,219</u>	<u>\$ 11,549,123</u>
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO	<u>10.00%</u>	<u>10.00%</u>	<u>10.00%</u>	<u>9.55%</u>
LONG-TERM OBLIGATIONS⁵	<u>Not Available</u>	<u>\$ 154,446,377</u>	<u>\$ 159,167,674</u>	<u>\$ 139,693,211</u>
AVERAGE DAILY ATTENDANCE AT P-2	<u>9,976</u>	<u>9,976</u>	<u>9,828</u>	<u>9,636</u>

The General Fund balance has decreased by \$813,461 over the past two years. The fiscal year 2018-2019 budget projects an increase of \$385,233 (2.98 percent). For a district this size, the State recommends available reserves of at least three percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in two of the past three years and anticipates incurring an operating surplus during the 2018-2019 fiscal year. Total long-term obligations have increased by \$14,753,166 over the past two years primarily due to the implementation of GASB Statement No. 75.

Average daily attendance has increased by 340 over the past two years. No change in ADA is anticipated during fiscal year 2018-2019.

¹ Budget 2019 is included for analytical purposes only and has not been subjected to audit.

² Available reserves consist of all amounts reserved for economic uncertainties contained with the General Fund.

³ On behalf payments have been excluded from this schedule for fiscal year 2016.

⁴ General Fund amounts do not include activity related to the consolidation of the Pupil Transportation Fund, the Special Reserve Non-Capital Outlay Fund and the Special Reserve Postemployment Benefits Fund as required by GASB Statement No. 54.

⁵ The balance of long-term obligations for the year ended June 30, 2017, has been restated due to the implementation of GASB Statement No. 75.

See accompanying note to supplementary information.

MERCED UNION HIGH SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2018**

	Adult Fund	Child Development Fund	Cafeteria Fund
ASSETS			
Deposits and investments	\$ 530,253	\$ 117,962	\$ 233,575
Receivables	405,953	1,418	554,003
Due from other funds	4,402	-	53,125
Stores inventories	-	-	102,381
Total Assets	\$ 940,608	\$ 119,380	\$ 943,084
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 154,011	\$ 1,046	\$ 45,613
Due to other funds	118,133	21,399	703,413
Total Liabilities	272,144	22,445	749,026
Fund Balances:			
Nonspendable	-	-	103,614
Restricted	238,755	96,935	90,444
Committed	429,709	-	-
Assigned	-	-	-
Total Fund Balances	668,464	96,935	194,058
Total Liabilities and Fund Balances	\$ 940,608	\$ 119,380	\$ 943,084

See accompanying note to supplementary information.

Deferred Maintenance Fund	Building Fund	Capital Facilities Fund	County School Facilities Fund	Special Reserve Capital Outlay Fund	Total Non-Major Governmental Funds
\$ 396,641	\$ 10,205	\$ 1,342,295	\$ 54,335	\$ 2,034,361	\$ 4,719,627
-	3,191	12,905	-	-	977,470
750,000	-	740,664	317,176	3,996,428	5,861,795
-	-	-	-	-	102,381
<u>\$ 1,146,641</u>	<u>\$ 13,396</u>	<u>\$ 2,095,864</u>	<u>\$ 371,511</u>	<u>\$ 6,030,789</u>	<u>\$ 11,661,273</u>
\$ 281,594	\$ 13,354	\$ 619,503	\$ 24,842	\$ 446,310	\$ 1,586,273
-	42	-	-	-	842,987
<u>281,594</u>	<u>13,396</u>	<u>619,503</u>	<u>24,842</u>	<u>446,310</u>	<u>2,429,260</u>
-	-	-	-	-	103,614
-	-	1,476,361	346,669	-	2,249,164
865,047	-	-	-	-	1,294,756
-	-	-	-	5,584,479	5,584,479
<u>865,047</u>	<u>-</u>	<u>1,476,361</u>	<u>346,669</u>	<u>5,584,479</u>	<u>9,232,013</u>
<u>\$ 1,146,641</u>	<u>\$ 13,396</u>	<u>\$ 2,095,864</u>	<u>\$ 371,511</u>	<u>\$ 6,030,789</u>	<u>\$ 11,661,273</u>

MERCED UNION HIGH SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2018**

	Adult Fund	Child Development Fund	Cafeteria Fund
REVENUES			
Local Control Funding Formula	\$ -	\$ -	\$ -
Federal sources	237,296	13,140	3,771,424
Other state sources	106,151	4,006	279,833
Other local sources	2,453,421	3,242	489,015
Total Revenues	2,796,868	20,388	4,540,272
EXPENDITURES			
Current			
Instruction	1,787,472	348,289	-
Instruction-related activities:			
School site administration	766,144	-	-
Pupil Services:			
Food services	-	45,624	5,387,569
All other pupil services	37,305	66,416	-
General administration:			
All other general administration	113,552	21,276	251,908
Plant services	153,369	6,939	19,462
Facility acquisition and construction	-	-	-
Total Expenditures	2,857,842	488,544	5,658,939
Excess (Deficiency) of Revenues Over Expenditures	(60,974)	(468,156)	(1,118,667)
Other Financing Sources (Uses):			
Transfers in	71,000	489,519	1,248,184
Transfers out	(71,000)	-	-
Net Financing Sources (Uses)	-	489,519	1,248,184
NET CHANGE IN FUND BALANCES	(60,974)	21,363	129,517
Fund Balance - Beginning	729,438	75,572	64,541
Fund Balance - Ending	\$ 668,464	\$ 96,935	\$ 194,058

See accompanying note to supplementary information.

Deferred Maintenance Fund	Building Fund	Capital Facilities Fund	County School Facilities Fund	Special Reserve Capital Outlay Fund	Total Non-Major Governmental Funds
\$ 374,034	\$ -	\$ -	\$ -	\$ -	\$ 374,034
-	-	-	-	-	4,021,860
-	-	-	-	-	389,990
6,165	667	2,080,514	1,830	35,868	5,070,722
<u>380,199</u>	<u>667</u>	<u>2,080,514</u>	<u>1,830</u>	<u>35,868</u>	<u>9,856,606</u>
-	-	-	-	-	2,135,761
-	-	-	-	-	766,144
-	-	-	-	-	5,433,193
-	-	-	-	-	103,721
-	-	1,417	-	-	388,153
5,704	-	33,026	-	105,900	324,400
629,680	37,538	3,593,464	-	1,057,982	5,318,664
<u>635,384</u>	<u>37,538</u>	<u>3,627,907</u>	<u>-</u>	<u>1,163,882</u>	<u>14,470,036</u>
<u>(255,185)</u>	<u>(36,871)</u>	<u>(1,547,393)</u>	<u>1,830</u>	<u>(1,128,014)</u>	<u>(4,613,430)</u>
922,000	-	-	-	3,000,000	5,730,703
-	-	-	-	-	(71,000)
<u>922,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,000,000</u>	<u>5,659,703</u>
666,815	(36,871)	(1,547,393)	1,830	1,871,986	1,046,273
198,232	36,871	3,023,754	344,839	3,712,493	8,185,740
<u>\$ 865,047</u>	<u>\$ -</u>	<u>\$ 1,476,361</u>	<u>\$ 346,669</u>	<u>\$ 5,584,479</u>	<u>\$ 9,232,013</u>

MERCED UNION HIGH SCHOOL DISTRICT

PRIVATE-PURPOSE SCHOLARSHIP TRUST FUNDS COMBINING STATEMENT OF NET POSITION JUNE 30, 2018

ASSETS	Scholarships
Deposits and investments	<u>\$ 1,584,077</u>
LIABILITIES	
NET POSITION	
Reserved for scholarships	
Non-Expendable:	
Acker Scholarship	\$ 25,906
Alvernaz Scholarship	20,226
Beal Scholarship	11,200
Callister Scholarship	3,050
Cavaiani Scholarship	10,141
Chamberlain Scholarship	15,631
Cruikshank Scholarship	14,077
Landram Scholarship	26,212
Montano Scholarship	5,490
Mudd Scholarship	21,149
Okuda Scholarship	10,269
Roberts Scholarship	9,287
Roveto Scholarship	132,283
Weimer Scholarship	51,364
Expendable:	
AARP Scholarship	504
Barnes Scholarship	21,597
Bloss Scholarship	867,759
Bennett Scholarship	3,002
Brewer, James Scholarship	18,338
Brewer, Pamela Scholarship	17,365
Broussard Scholarship	1,590
Brown Scholarship	2,943
Church Scholarship	10,881
Crookham Scholarship	142
Dallas Scholarship	1,296
Dibblee, Al Scholarship	30,857
Ed Dimsey Scholarship	1,001
Fancher Scholarship	147,766
Fite Scholarship	386
Gear Up Scholarship	6
Granado Scholarship	8,896
Jackson Scholarship	3,145
Joyner Scholarship	111

See accompanying note to supplementary information.

MERCED UNION HIGH SCHOOL DISTRICT

**PRIVATE-PURPOSE SCHOLARSHIP TRUST FUNDS
COMBINING STATEMENT OF NET POSITION, Continued
JUNE 30, 2018**

NET POSITION, Continued

Reserved for scholarships

	<u>Scholarships</u>
Kiwanis Scholarship	\$ 282
Lau Scholarship	3,215
Lockwood Scholarship	9,821
Martinelli Scholarship	1
McCollum Scholarship	3,162
McPherson-Hanson Scholarship	133
Mitchell Scholarship	(229)
Moberly Scholarship	4,581
Newhall Scholarship	16,862
Prince Scholarship	36,887
Rohm Scholarship	56
Sodexo Scholarship	139
Souza Scholarship	10,534
Thompson Scholarship	(242)
Yagi Scholarship	5,005
Total Net Position Reserved for Scholarships	<u>\$ 1,584,077</u>

See accompanying note to supplementary information.

MERCED UNION HIGH SCHOOL DISTRICT

**PRIVATE-PURPOSE SCHOLARSHIP TRUST FUNDS
COMBINING STATEMENT OF CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018**

	Acker Scholarship	Alvernaz Scholarship	Beal Scholarship	Callister Scholarship	Cavaiani Scholarship
ADDITIONS					
Trust income	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions	-	-	-	-	-
Interest income	20	13	8	2	11
Total Additions	<u>20</u>	<u>13</u>	<u>8</u>	<u>2</u>	<u>11</u>
DEDUCTIONS					
Scholarships awarded	1,250	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Deductions	<u>1,250</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in Net Position	(1,230)	13	8	2	11
Net Position - Beginning	<u>27,136</u>	<u>20,213</u>	<u>11,192</u>	<u>3,048</u>	<u>10,130</u>
Net Position - Ending	<u>\$ 25,906</u>	<u>\$ 20,226</u>	<u>\$ 11,200</u>	<u>\$ 3,050</u>	<u>\$ 10,141</u>

See accompanying note to supplementary information.

<u>Chamberlain Scholarship</u>	<u>Cruikshank Scholarship</u>	<u>Landram Scholarship</u>	<u>Montano Scholarship</u>	<u>Mudd Scholarship</u>	<u>Okuda Scholarship</u>	<u>Roberts Scholarship</u>
\$ 3,812	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-
11	9	18	3	14	7	6
<u>3,823</u>	<u>9</u>	<u>18</u>	<u>3</u>	<u>14</u>	<u>7</u>	<u>6</u>
7,875	-	-	-	-	-	-
2	-	-	-	-	-	-
<u>7,877</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
(4,054)	9	18	3	14	7	6
<u>19,685</u>	<u>14,068</u>	<u>26,194</u>	<u>5,487</u>	<u>21,135</u>	<u>10,262</u>	<u>9,281</u>
<u>\$ 15,631</u>	<u>\$ 14,077</u>	<u>\$ 26,212</u>	<u>\$ 5,490</u>	<u>\$ 21,149</u>	<u>\$ 10,269</u>	<u>\$ 9,287</u>

MERCED UNION HIGH SCHOOL DISTRICT

**PRIVATE-PURPOSE SCHOLARSHIP TRUST FUNDS
COMBINING STATEMENT OF CHANGES IN NET POSITION, Continued
FOR THE YEAR ENDED JUNE 30, 2018**

	Roveto Scholarship	Weimer Scholarship	Total Non-Expendable Scholarships
ADDITIONS			
Trust income	\$ -	\$ 10,000	\$ 13,812
Contributions	-	-	-
Interest income	899	37	1,058
Total Additions	<u>899</u>	<u>10,037</u>	<u>14,870</u>
DEDUCTIONS			
Scholarships awarded	-	1,500	10,625
Miscellaneous	2	1	5
Total Deductions	<u>2</u>	<u>1,501</u>	<u>10,630</u>
Change in Net Position	897	8,536	4,240
Net Position - Beginning	<u>131,386</u>	<u>42,828</u>	<u>352,045</u>
Net Position - Ending	<u>\$ 132,283</u>	<u>\$ 51,364</u>	<u>\$ 356,285</u>

See accompanying note to supplementary information.

MERCED UNION HIGH SCHOOL DISTRICT

**PRIVATE-PURPOSE SCHOLARSHIP TRUST FUNDS
COMBINING STATEMENT OF CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018**

	AARP Scholarship	Barnes Scholarship	Bloss Scholarship	Bennett Scholarship	Brewer, James Scholarship
ADDITIONS					
Trust income	\$ -	\$ 5,000	\$ 480,275	\$ 3,000	\$ 500
Contributions	-	-	17,909	-	-
Interest income	-	12	1,533	2	82
Total Additions	<u>-</u>	<u>5,012</u>	<u>499,717</u>	<u>3,002</u>	<u>582</u>
DEDUCTIONS					
Scholarships awarded	-	1,000	414,023	-	500
Miscellaneous	-	-	51	-	-
Total Deductions	<u>-</u>	<u>1,000</u>	<u>414,074</u>	<u>-</u>	<u>500</u>
Change in Net Position	-	4,012	85,643	3,002	82
Net Position - Beginning	<u>504</u>	<u>17,585</u>	<u>782,116</u>	<u>-</u>	<u>18,256</u>
Net Position - Ending	<u>\$ 504</u>	<u>\$ 21,597</u>	<u>\$ 867,759</u>	<u>\$ 3,002</u>	<u>\$ 18,338</u>

See accompanying note to supplementary information.

Brewer, Pamela Scholarship	Broussard Scholarship	Brown Scholarship	Church Scholarship	Crookham Scholarship	Dallas Scholarship	Dibblee, Al & IIABMMC Scholarship
\$ 500	\$ 50	\$ -	\$ 250	\$ -	\$ 1	\$ -
-	-	-	-	-	-	-
80	2	4	7	-	-	26
<u>580</u>	<u>52</u>	<u>4</u>	<u>257</u>	<u>-</u>	<u>1</u>	<u>26</u>
500	-	4,000	-	-	-	750
-	1	-	-	-	-	6
<u>500</u>	<u>1</u>	<u>4,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>756</u>
80	51	(3,996)	257	-	1	(730)
<u>17,285</u>	<u>1,539</u>	<u>6,939</u>	<u>10,624</u>	<u>142</u>	<u>1,295</u>	<u>31,587</u>
<u>\$ 17,365</u>	<u>\$ 1,590</u>	<u>\$ 2,943</u>	<u>\$ 10,881</u>	<u>\$ 142</u>	<u>\$ 1,296</u>	<u>\$ 30,857</u>

MERCED UNION HIGH SCHOOL DISTRICT

**PRIVATE-PURPOSE SCHOLARSHIP TRUST FUNDS
COMBINING STATEMENT OF CHANGES IN NET POSITION, Continued
FOR THE YEAR ENDED JUNE 30, 2018**

	Ed Dimsey Scholarship	Fancher Scholarship	Fite Scholarship	Gear Up Scholarship	Granado Scholarship
ADDITIONS					
Trust income	\$ -	\$ 103,171	\$ -	\$ -	\$ 6,559
Contributions	-	-	-	-	-
Interest income	1	102	-	-	7
Total Additions	<u>1</u>	<u>103,273</u>	<u>-</u>	<u>-</u>	<u>6,566</u>
DEDUCTIONS					
Scholarships awarded	-	100,394	-	-	425
Miscellaneous	-	24	-	-	-
Total Deductions	<u>-</u>	<u>100,418</u>	<u>-</u>	<u>-</u>	<u>425</u>
Change in Net Position	1	2,855	-	-	6,141
Net Position - Beginning	<u>1,000</u>	<u>144,911</u>	<u>386</u>	<u>6</u>	<u>2,755</u>
Net Position - Ending	<u>\$ 1,001</u>	<u>\$ 147,766</u>	<u>\$ 386</u>	<u>\$ 6</u>	<u>\$ 8,896</u>

See accompanying note to supplementary information.

<u>Jackson Scholarship</u>	<u>Joyner Scholarship</u>	<u>Kiwanis Scholarship</u>	<u>Lau Scholarship</u>	<u>Lockwood Scholarship</u>	<u>Martinelli Scholarship</u>	<u>McCollum Scholarship</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-
2	1	-	3	5	-	2
<u>2</u>	<u>1</u>	<u>-</u>	<u>3</u>	<u>5</u>	<u>-</u>	<u>2</u>
-	-	-	-	-	-	-
-	-	-	1	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>1</u>	<u>-</u>	<u>-</u>	<u>-</u>
2	1	-	2	5	-	2
<u>3,143</u>	<u>110</u>	<u>282</u>	<u>3,213</u>	<u>9,816</u>	<u>1</u>	<u>3,160</u>
<u>\$ 3,145</u>	<u>\$ 111</u>	<u>\$ 282</u>	<u>\$ 3,215</u>	<u>\$ 9,821</u>	<u>\$ 1</u>	<u>\$ 3,162</u>

MERCED UNION HIGH SCHOOL DISTRICT

**PRIVATE-PURPOSE SCHOLARSHIP TRUST FUNDS
COMBINING STATEMENT OF CHANGES IN NET POSITION, Continued
FOR THE YEAR ENDED JUNE 30, 2018**

	McPherson- Hanson Scholarship	Mitchell Scholarship	Moberly Scholarship	Newhall Scholarship	Prince Scholarship
ADDITIONS					
Trust income	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions	-	-	-	-	-
Interest income	-	-	4	11	329
Total Additions	<u>-</u>	<u>-</u>	<u>4</u>	<u>11</u>	<u>329</u>
DEDUCTIONS					
Scholarships awarded	-	375	200	1,625	12,000
Miscellaneous	-	-	-	-	2
Total Deductions	<u>-</u>	<u>375</u>	<u>200</u>	<u>1,625</u>	<u>12,002</u>
Change in Net Position	-	(375)	(196)	(1,614)	(11,673)
Net Position - Beginning	<u>133</u>	<u>146</u>	<u>4,777</u>	<u>18,476</u>	<u>48,560</u>
Net Position - Ending	<u>\$ 133</u>	<u>\$ (229)</u>	<u>\$ 4,581</u>	<u>\$ 16,862</u>	<u>\$ 36,887</u>

See accompanying note to supplementary information.

<u>Rohm Scholarship</u>	<u>Sodexo Scholarship</u>	<u>Souza Scholarship</u>	<u>Thompson Scholarship</u>	<u>Yagi Scholarship</u>	<u>Total Expendable Scholarships</u>	<u>Total (Memorandum Only)</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 599,306	\$ 613,118
-	-	-	-	-	17,909	17,909
-	-	8	-	4	2,227	3,285
<u>-</u>	<u>-</u>	<u>8</u>	<u>-</u>	<u>4</u>	<u>619,442</u>	<u>634,312</u>
-	-	250	-	1,000	537,042	547,667
-	-	-	-	-	85	90
<u>-</u>	<u>-</u>	<u>250</u>	<u>-</u>	<u>1,000</u>	<u>537,127</u>	<u>547,757</u>
-	-	(242)	-	(996)	82,315	86,555
<u>56</u>	<u>139</u>	<u>10,776</u>	<u>(242)</u>	<u>6,001</u>	<u>1,145,477</u>	<u>1,497,522</u>
<u>\$ 56</u>	<u>\$ 139</u>	<u>\$ 10,534</u>	<u>\$ (242)</u>	<u>\$ 5,005</u>	<u>\$ 1,227,792</u>	<u>\$ 1,584,077</u>

MERCED UNION HIGH SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2018

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. The District has not elected to use the ten percent de minimis cost rate as covered in Section 200.414 Indirect (F&A) costs of the Uniform Guidance.

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances, and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amount consists of the Qualified School Construction Bonds subsidy received by the District that is not reported on the Schedule of Expenditures of Federal Awards.

	CFDA Number	Amount
Total Federal Revenues From the Statement of Revenues, Expenditures, and Changes in Fund Balances:		\$ 14,130,463
Reconciling items:		
Qualified School Construction Bonds Subsidy	N/A	(1,492,213)
Total Schedule of Expenditures of Federal Awards		<u>\$ 12,638,250</u>

Local Education Agency Organization Structure

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

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

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

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

MERCED UNION HIGH SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2018

Reconciliation of Annual Financial and Budget Report With Audited Financial Statements

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

Schedule of Financial Trends and Analysis

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

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

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

Private Purpose Scholarship Trust Funds – Combining Statement of Net Position and Combining Statement of Changes in Net Position

These statements are included to provide additional information regarding the individual scholarship trust funds. Following is a description of the purpose and requirements for each of the scholarships.

Jim Acker Memorial Scholarship

This scholarship has been established in honor of Jim Acker who graduated from Merced High School in 1971, by the Jim Acker Memorial Scholarship Committee, to provide a scholarship for graduating seniors from Merced High School attending a two or four year college. Recipient of this scholarship will be selected by the Jim Acker Memorial Scholarship Committee based on citizenship, GPA of 3.0 or higher and participating in athletics.

John L. Alvernaz, Jr. Scholarship

The scholarship is established from the Estate of John L. Alvernaz, Jr. to be awarded to students from Merced Union High School District. No other criteria has been specified for determining eligibility for this scholarship.

Steven O. Beal Memorial Scholarship

This scholarship is established in the memory of Steven O. Beal, a former teacher of Industrial Arts in the Merced Union High School District, for eligible Industrial Arts Drafting students planning to attend a two or four-year accredited college or university. If no Industrial Arts Drafting students apply, the scholarship may be granted to any other deserving Industrial Arts student. The student must have a cumulative GPA of no less than 2.75 for the first seven semesters of high school. The awards are to be in increments of \$500 from any amount over the \$10,000 principle. This scholarship is non-renewable.

MERCED UNION HIGH SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2018

Eldon J. Callister Memorial Scholarship

This scholarship is established in honor of Eldon J. Callister to provide a scholarship each year to a student of Merced Union High School District who enrolls as a full time student at either Brigham Young University or Utah State University. An award is given annually if a graduating senior qualifies.

Ugo Cavaiani Scholarship

This scholarship has been set up per the request of Ugo Cavaiani to award scholarships to Livingston High School graduates aspiring to be nurses.

Chamberlain Scholarship

This scholarship was established by Naomi R. Chamberlain to provide annual scholarships to worthy graduates of Merced High School District. The following requirements are to be met by the District in managing the Chamberlain Scholarship:

- The principal shall remain intact in the Trust and the income only would be distributed to worthy students.
- Scholarships are to be awarded once per year in early May or in the spring semester.
- The number of scholarships is dependent upon the amount of interest or income generated from the fund.
- Approximately one-half of the scholarships are to be awarded to students whose goal is to attend a two-year junior or community college and the remaining awarded to students whose goal is to attend a four-year college.
- Scholarships are to be awarded to students with a 3.0 GPA or better during their attendance at Merced High School.
- Consideration should be given to provide for automatic renewal for any student in continuous enrollment, up to four years at any college or university of his or her choice, as long as the student maintains a 3.0 or higher GPA.

Herbert H. Cruikshank Scholarship

This scholarship was established in honor of Herbert H. Cruikshank. The amount of the scholarship awarded annually will be the amount generated by interest only. No amount of principal shall be part of the scholarship. If no student is awarded the scholarship in a given year, the amount will carry over to the following year, thus making the scholarship amount equivalent to two years. Guidelines for the recipient are as follows:

- Student must attend an accredited community college or a four year college.
- Student must have a record of participating in an extracurricular school activity, club or community service project.
- Student must have graduated from Golden Valley High School and have a 3.0 + GPA.

Hugh K. Landram Memorial Scholarship

This scholarship fund is established in honor of Hugh K. Landram to provide for scholarships to be awarded to deserving students for their future education in an accredited college or university in the State of California.

MERCED UNION HIGH SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2018

John P. Montano Memorial Scholarship

This Scholarship is established in honor of John P. Montano, a former Physical Education teacher and coach in the Merced Union High School District. It provides scholarships to eligible students who competed in a varsity sport for a minimum of one season and are planning to attend a two- or four-year college or an accredited vocational school. The student must have a cumulative GPA of no less than 2.5 for the first seven semesters of high school. The awards are to be in increments of \$600 from any amount over the \$3,255 principal. This scholarship is non-renewable.

Jay Leroy Mudd Scholarship

This scholarship is established from the Estate of Jay Leroy Mudd. The corpus shall not be impaired, but the interest shall be paid, by way of scholarships, to students from Merced Union High School for the purpose of obtaining a college education. A board consisting of the President of Merced City Chamber of Commerce, the President of Merced Rotary club, the Senior Warden of F. & A.M. Lodge #99 of Merced, and the Master of F. & A.M. Lodge #749 of Merced shall have the exclusive right to select the recipients.

Okuda Memorial Scholarship

This scholarship has been established by Franklin Okuda in memory of his son Calvin Okuda. The scholarship has a balance of over \$10,000. This is a perpetual scholarship with only the interest being awarded in the form of scholarships. The interest earned shall be split equally for two scholarships, to one male and one female graduate from Livingston High School that meet the following criteria.

- Scholarships are to be awarded to students with a 2.0 GPA or higher.
- Scholarships are to be awarded to students who are enrolled at a vocational school, community college, state college, or university.
- Scholarships are to be awarded to students who otherwise would not receive an award.

Donna Roberts Scholarship

This scholarship has been set up per the request of Eugene E. Roberts to provide a scholarship each year for a graduating senior of Yosemite High School intending to enroll in a community college the subsequent fall semester. Recipient of this scholarship shall be selected by Mr. Ron DeWong or his successor under criteria established by Mr. Eugene E. Roberts.

Rebecca Starr Roveto Scholarship

This scholarship is established to provide scholarships for graduating seniors from Atwater High School or any new high school serving Atwater students who plan to attend an accredited four year college or university in increments of \$1,000 beginning in 1998. The awards to be given will be selected by the scholarship committee designated by the Merced Union High School District to applicants who have a minimum of 3.3 GPA (4.0 scale).

MERCED UNION HIGH SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2018

Walter Weimer Family/Livingston Rotary International Scholarship

This scholarship has been established in honor of Walter Weimer, per the request of the Weimer Family, to provide a scholarship to a Livingston High School senior. Applicant to meet the following criteria: strong math and science or agricultural science, two or four year college (UC Merced preferred but no required), well-rounded student who participated in activities. Livingston High School site committee selects recipient. Award to be \$500 (non-renewable).

AARP Scholarship

This scholarship was established by the Atwater AARP Chapter #2194 in the amount of \$9,000 to be distributed at the rate of \$1,000 per year for four scholarships, \$250 each, until the \$9,000 with its earnings has been depleted. The scholarships are to be awarded to two academic majors and two vocational majors for studies accordingly in college. The Atwater High School Scholarship Committee selects several possible academic and vocational recipients from the pool of Atwater High School Scholarship applicants and refers the names to AARP Chapter #2194 for screening and selection.

Richard Barnes Memorial Scholarship

This scholarship was established by JoAnna Browning in the memory of Richard Barnes to provide scholarships for eligible student athletes of Atwater High School who graduate with a minimum 3.0 GPA. There will be one award recipient each year receiving \$500 if attending a two year college or \$1,000 if attending a four year college.

Christine Bloss Memorial Scholarship

This scholarship is established in honor of Christine Bloss to provide scholarships for graduating seniors. It is awarded annually to students who attend a two-year or four-year college and are graduates of Merced High School, Atwater, Livingston, Yosemite, or the Adult School. The total amount awarded annually is determined by the Board of Trustees based on earnings from trust account and time certificates. Each campus receives a stipulated amount based on the number of graduates on a percentage basis. Each school determines the number of recipients and the amount of each award. Students must attend an accredited California college or university.

Bennett Family Scholarship

This scholarship has been established in honor of the Bennett Family, per the request of the Bennett Family, to provide a scholarship to a High School senior who intends to attend a historically black four year college. Applicant to meet the following criteria: AP class coursework, minimum GPA of 3.0. Bennett Family committee selects recipient. Award to be \$3,000 for a four year college annually.

MERCED UNION HIGH SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2018

James Brewer Memorial Scholarship

This scholarship has been established in honor of James W. Brewer. A \$500 non-renewable scholarship will be awarded to an Atwater High School senior pursuing a career as a high school Science teacher. However, if no applicants meet the criteria, an applicant becoming a high school teacher will be considered. A minimum 3.5 GPA is preferred. The Brewer Family will select the recipient of the scholarship or designate the Atwater High School Committee to make the selection.

Pamela Brewer Scholarship

This scholarship has been established in honor of Pamela K. Brewer. A \$500 non-renewable scholarship will be awarded to an Atwater High School senior pursuing a career as a high school Social Studies or English teacher. However, if no applicants meet the criteria, an applicant becoming a high school teacher will be considered. A minimum 3.5 GPA is preferred. The Brewer Family will select the recipient of the scholarship or designate the Atwater High School Committee to make the selection.

Kiara Broussard Culinary Arts Scholarship

This scholarship has been established in honor of Kiara Broussard, per the request of Jennifer Broussard, to provide a scholarship for a graduating senior of Golden Valley High School or Buhach Colony/Merced High School if Golden Valley has no candidates. Applicant majoring in Culinary Arts (San Francisco Culinary Academy preferred). Recipient will be selected by family of Kiara Broussard. No required activities, minimum GPA 3.0, \$500 award (amount may change).

Brown Memorial Scholarship

This scholarship was established to provide scholarships to Merced and Golden Valley High School graduating seniors planning to attend a two or four-year accredited college or university in increments of \$1,000 per year for four years or completion of undergraduate degree. Scholarships will be awarded to students with a 3.3 cumulative GPA. College students must have a cumulative 2.5 GPA to remain eligible.

Church Scholarship

This scholarship has been established by Mr. and Mrs. Dan Church. The Scholarship Fund has accumulated approximately \$10,000. The interest accrued each year will be awarded to a graduating Golden Valley High School male or female student athlete who has participated in at least one varsity sport and plans to attend Merced College.

Sybil Nye Crookham Memorial Scholarship

This scholarship is established in honor of Sybil Nye Crookham. The scholarship will be awarded to seniors at either Atwater or Buhach Colony High Schools with a GPA of at least 3.0. The \$250 scholarship will be awarded to one senior at each high school.

MERCED UNION HIGH SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2018

Dallas Athletic Scholarship (Heart Award)

This scholarship has been established at Atwater and Buhach Colony High Schools in the amounts of \$12,500 each. The \$1,000 scholarship will be awarded to a female athlete at each high school with a minimum GPA of 2.5 who has participated in athletics for a minimum of two years who will be enrolled in a two or four year college or vocational school.

Al Dibblee & Independent Insurance Agents and Brokers of Merced and Mariposa Counties Scholarship

This scholarship has been established by Al Dibblee & Independent Insurance Agents and Brokers of Merced and Mariposa Counties. The \$500 scholarship will be awarded to two seniors on a rotating basis at Livingston and Buhach Colony High Schools in 2010, Atwater and Golden Valley High Schools in 2011, and Merced and Livingston High Schools in 2012. The two scholarships of \$500 will be awarded each year until the funds are depleted. When funds are reduced to less than \$500, the remaining balance will be the award. The applicants will need to meet the following criteria: Senior, Minimum GPA of 3.0, attend Merced College, business related major, and have a financial need. The Campus Site Scholarship Committees will select the recipient using the MUHSD Generic Scholarship application.

Edward Dimsey Memorial Scholarship

This Scholarship is established in honor of Edward Dimsey. It provides scholarships to eligible students of Merced Adult School who completed a minimum of 100 hours of community service in Merced County within the preceding two years and are planning to attend a two or four-year college or an accredited vocational school. A committee consisting of present and former Merced Adult School staff and members of the Veterans of Foreign Wars Chapter in Atwater shall have the exclusive right to select the recipients.

Fred B. Fancher Scholarship

This scholarship is established in honor of Fred B. Fancher. Scholarships are granted annually to qualified graduates of the Merced Union High School District who have demonstrated an interest in the broad field of agriculture and who wish to pursue a course of study, directly or indirectly, related to the field of agriculture. Students must attend either a two-year or a four-year accredited California university or college. The amount awarded each year depends upon the availability of funds. Applicants may reapply each year and receive a scholarship for up to a maximum of four years.

Carter Fite Memorial Scholarship

This scholarship has been established in honor of Carter Fite. The scholarship awards began in the spring of 2002 and will be awarded until the funds are depleted. Scholarships in the amount of \$500 each will be awarded to two Atwater High School seniors pursuing a two or four year college degree and majoring in math or teaching (elementary or high school), preferably math teacher. A GPA of 3.0 or higher is required. Students may use the generic Merced Union High School District scholarship application. There are no financial need requirements. Atwater High School Scholarship Committee selects the recipients and the funds are distributed using the Bloss Scholarship guidelines. Staff will present the awards at the awards ceremony.

MERCED UNION HIGH SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2018

Gear Up Scholarship

This scholarship has been established by the Gear Up Program. Awards of \$150, \$300, or \$500 will be given to students enrolled in the Gear Up Program at Atwater and Buhach High Schools. The awards will be based on how well the students did in the program.

Mario Granado Memorial Scholarship

This scholarship has been established in honor of Mario Granado, a former employee of Merced Union High School District, per the request of Cynthia Granado, to provide non-renewable scholarships to Livingston High School, Atwater High School, Buhach Colony High School, Merced High School and Golden Valley High School seniors with 2.0+ GPA. Applicants to meet any of the following criteria: pursuing a vocational program (priority), overcome obstacles or shown improvement, come from large family, participate in baseball or softball, complete 200+ hours of community service or plays a musical instrument. Awards to be \$1,000 at each campus.

Betty B. Jackson Scholarship

This scholarship has been established in honor of Betty B. Jackson, per the request of Lloyd Jackson, to provide a scholarship for the first year of college for a graduating senior of Merced High School enrolling in a junior college. Recipient of this scholarship shall be selected by the Merced High School Scholarship Committee under the criteria established by Mr. Lloyd Jackson as follows:

- Financial need as determined by the Scholarship Committee.
- Minimum GPA of 2.0 based on last five semesters of high school grades.
- Selection cannot be made until after the Bloss and Smith Scholarships are selected.

Joyner Scholarship

This scholarship was established by the California Association of School Business Officials to be given in the name of Lydia L. Lobdell, in the amount of \$500 each year for ten years. The recipient will be selected from one high school in the District on a rotating basis. The selection will be made by a committee of business teachers at the site. The scholarship may be awarded without qualification to any graduate in need of assistance to continue their education.

Livingston Kiwanis Club Scholarship

This scholarship has been established by the Kiwanis Club of Livingston-Delhi for the purposes of awarding a yearly academic scholarship to a Livingston High School Student, beginning in 1993. The criteria is to be established by the Livingston High School Scholarship Committee.

Karina Lau Memorial Scholarship

This scholarship is established in honor of Karina Lau. The scholarship is to be awarded to a senior at Livingston High School who was involved in the music or theater program and will enroll in a two or four year college with a music or theater related degree. The scholarship will be \$1,000 a year for up to four years as long as the student continues with a music or theater major.

MERCED UNION HIGH SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2018

Lester L. Lockwood Memorial Scholarship

This scholarship has been established in honor of Lester L. Lockwood with the approval of Janelle Lockwood. The Lester Lockwood Memorial Scholarship will be awarded each year to a graduating senior from Yosemite High School who plans to continue his/her education at Merced College, or the previous year's recipient who is currently enrolled at Merced College and has reapplied for the scholarship. The scholarship may be renewed one time only in the manner described above. A current college student who is reapplying will be given precedence. In the event there is no reapplication, a graduating senior from Yosemite High School will be chosen by the administration and staff at Yosemite High School.

Angelo Martinelli Memorial Scholarship

This scholarship is established in honor of Angelo Martinelli to provide scholarships to eligible Merced High School graduates. Scholarships in the amount of \$250 will be awarded to students who have received a cumulative GPA of at least 2.75 in high school, the student may attend an accredited two-year, four-year, or a vocational school, and the student will be approved by the Martinelli family. This scholarship is non-renewable.

Karen McCollum Memorial Scholarship

This scholarship was established in honor of Karen McCollum to provide a scholarship to an eligible student who attended the GED program at the Merced Adult School and is enrolling with a GPA of 2.0 or higher and at least six or more units of work at Merced Community College. The \$500 scholarship will be disbursed in two separate payments annually (August and December).

Lucy McPherson-Hanson Memorial Scholarship

This scholarship was established to provide annual scholarships preferably to an African American student, or other minority student, graduating from Merced High School with a minimum grade point average of 2.5. This scholarship is non-renewable.

Herbert Mitchell Memorial Scholarship

This scholarship has been established in honor of Herbert Mitchell by his widow, Mrs. Winnie Mitchell, to provide a \$200 scholarship to a deserving graduate of Merced High School. The recipient of this scholarship shall be selected by the Merced High School Scholarship Committee under the criteria established by Mrs. Winnie Mitchell as follows:

- Financial need as determined by the Scholarship Committee.
- Must be a business student.
- Must be enrolling in a local community college.
- No minimum GPA requirements.

MERCED UNION HIGH SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2018

Sanford Moberly Memorial Scholarship

This scholarship is established in memory of Sanford Moberly, an art teacher at Livingston High School. Each year an art student, selected by the Livingston High School Art Department, receives a \$200 award from this scholarship.

Henry Mayo Newhall Scholarship

This scholarship was established by a gift from the Henry Mayo Foundation. A scholarship in the amount of \$8,000 is awarded to the outstanding graduate of Merced High School who will attend a four-year college. Applicant selection criteria is the same as for the Bloss Scholarship.

Clarence Earl Prince Scholarship

This scholarship is established from the Estate of Clarence Earl Prince to provide for scholarships to be awarded to deserving students of Merced Union High School who intend to attend college during the next academic year immediately following high school graduation. The Superintendent of the Merced Union High School District, together with the Board of Directors of Merced Rotary Club shall choose applicants and set the standards by which the applicants will be chosen. The criteria can be changed from one year to the next.

Ryan M. Rohm Memorial Scholarship

This scholarship is established in honor of Ryan Rohm to provide scholarships to eligible Golden Valley High School graduates. Three scholarships, in the amount of \$1,000 (\$500 per year for two years), will be awarded to approved students, to be eligible a student must have received a cumulative GPA of at least 3.0 in high school. This scholarship is non-renewable.

Sodexo Scholarship

Sodexo School Services has established this scholarship which will total two \$500 scholarships a year for students wishing to continue their education beyond high school in a vocational area. The scholarship will be rotated between all District high schools beginning with Buhach Colony and Golden Valley. The scholarship will be awarded to one student at each of the two high schools with at least a 2.5 GPA.

Crystal Souza Memorial Scholarship

This scholarship is established in honor of Crystal Souza. The scholarship is to be awarded to seniors at Livingston High School and will total \$250 a year for two students. Each \$250 scholarship will be awarded to one agriculture major and one nursing major. The students must be attending Merced College.

Bob Thompson Rotary Scholarship

This scholarship has been established by Bob Thompson. The scholarship will be awarded to a Livingston High School Senior who is pursuing a vocational degree or certificate. The award amount will be \$500 per year and the recipient will be selected by the Livingston High School Site Committee.

MERCED UNION HIGH SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2018

George Yagi Memorial Scholarship

This scholarship has been established in honor of George Yagi, per the request of Floy Yagi, to provide a scholarship to a Livingston High School senior who intends to attend a two or four year college. Applicant to meet the following criteria: major in agriculture or related field, participation in FFA, minimum GPA of 3.0. Livingston High School site committee selects recipient. Award to be \$1,000 for a four year college or \$500 for a two year college.

INDEPENDENT AUDITOR'S REPORTS



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

Governing Board
Merced Union High School District
Merced, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Merced Union High School District (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Merced Union High School District's basic financial statements, and have issued our report thereon dated December 11, 2018.

Emphasis of Matter - Change in Accounting Principles

As discussed in Note 1 and Note 15 to the financial statements, in 2018, the District adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of Merced Union High School District in a separate letter dated December 11, 2018.

Purpose of This Report

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

Vannink, Trine, Day & Co., LLP

Fresno, California
December 11, 2018



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

Governing Board
Merced Union High School District
Merced, California

Report on Compliance for Each Major Federal Program

We have audited Merced Union High School District's (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Merced Union High School District's major Federal programs for the year ended June 30, 2018. Merced Union High School District's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, Merced Union High School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2018.

Report on Internal Control Over Compliance

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

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

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

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

Vannink, Trini, Day & Co, LLP

Fresno, California
December 11, 2018



INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
Merced Union High School District
Merced, California

Report on State Compliance

We have audited Merced Union High School District's (the District) compliance with the types of compliance requirements as identified in the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* that could have a direct and material effect on each of the Merced Union High School District's State government programs as noted below for the year ended June 30, 2018.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the Merced Union High School District's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about Merced Union High School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of Merced Union High School District's compliance with those requirements.

Unmodified Opinion

In our opinion, Merced Union High School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2018.

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

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

The District does not offer kindergarten instruction; therefore, we did not perform procedures related to Kindergarten Continuance.

The District did not have any employees retire under the CalSTRS Early Retirement Incentive program; therefore, testing was not required.

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

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

The District only has grades 9-12; therefore, we did not perform procedures related to K-3 Grade Span Adjustment.

The District does not offer an apprenticeship program; therefore, we did not perform procedures related to Apprenticeship: Related and Supplemental Instruction.

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

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

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

Vannink, Trini, Day & Co, LLP

Fresno, California
December 11, 2018

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MERCED UNION HIGH SCHOOL DISTRICT

**SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2018**

FINANCIAL STATEMENTS

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

FEDERAL AWARDS

Internal control over major Federal programs:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>None reported</u>
Type of auditor's report issued on compliance for major Federal programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with Section 200.516(a) of the Uniform Guidance?	
Identification of major Federal programs:	<u>No</u>

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
<u>84.010</u>	<u>Title I - Part A, Basic</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 750,000</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

STATE AWARDS

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

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018**

None reported.

MERCED UNION HIGH SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

None reported.

MERCED UNION HIGH SCHOOL DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

None reported.

MERCED UNION HIGH SCHOOL DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018**

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



Governing Board
Merced Union High School District
Merced, California

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

However, during our audit we noted matters that are opportunities for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated December 11, 2018, on the government-wide financial statements of the District.

ATWATER HIGH SCHOOL - ASSOCIATED STUDENT BODY (ASB)

Cash Receipts

Observation

During the audit of the cash receipts system, we discovered that teachers/advisors are not consistently using sub-receipt books or a class roster (there is no supporting documentation) to document when funds are being turned in, how much, and by which students. Without this supporting documentation we cannot determine if deposits are intact or if the teachers are forwarding funds to the ASB bookkeeper in a timely manner. When there is no documentation attached to the funds turned in, the bookkeeper cannot reconcile to determine the accuracy of the cash count sheet and the actual amount turned in.

Recommendation

Sub-receipts should be used by teachers/advisors when conducting fundraising activities. For certain events, a class roster or tally sheet may be sufficient in place of using a sub-receipt book. Prenumbered receipts should be issued, a classroom roster, or a tally sheet should be completed, for all collections by teachers/advisors which should include a specific description of the source of the funds. The documentation issued/prepared by the teachers/advisors should be forwarded with the funds to the bookkeeper as documentation that all funds collected have been turned in.

Prohibited Expenditure

Observation

During our audit of cash disbursements, we noted ASB funds were used to purchase a Carhartt jacket for a club advisor. This item was not for the general welfare of the students and is therefore considered a prohibited expenditure. Purchases of staff clothing should be handled by the District Office and should not use ASB funds.

Recommendation

The site should review the cash disbursement procedures outlined in the Accounting and Procedures for Student Organization manual prepared by the California Department of Education or the Associated Student Body Accounting Manual, Fraud Prevention Guide and Desk Reference published by the Fiscal Crisis & Management Assistance Team (FCMAT) which is available at www.fcmat.org. All expenditures should be approved only if the purchased item is for the general welfare and benefit of the students. This will reduce the risk of unauthorized spending and using ASB monies for prohibited expenditures. Further information can be found in the *Associated Student Body Accounting Manual, Fraud Prevention Guide and Desk Reference* published by the Fiscal Crisis & Management Assistance Team (FCMAT) which is available at www.fcmat.org.

Unmonitored PayPal Account

Observation

During our audit of the Associated Student Body accounts, we discovered the FFA club had set up a PayPal account however monthly statements or activity reports were not being submitted to the site ASB bookkeeper. The account was not reconciled to deposits received nor monitored for unauthorized or unapproved disbursements.

Recommendation

The FFA club should submit a monthly statement or activity report to the ASB bookkeeper on a regular basis. The ASB bookkeeper should treat the PayPal account as another bank account and implement the same controls and practices as a traditional ASB bank account. Deposits should be monitored for timeliness and disbursements should follow normal ASB procedures and generally be disbursed from the main ASB checking account.

BUHACH COLONY HIGH SCHOOL - ASSOCIATED STUDENT BODY (ASB)

Cash Receipts

Observation

During the audit of the cash receipts system, we discovered that teachers/advisors are not consistently using sub-receipt books or a class roster (there is no supporting documentation) to document when funds are being turned in, how much, and by which students. Without this supporting documentation we cannot determine if deposits are intact or if the teachers are forwarding funds to the ASB bookkeeper in a timely manner. When there is no documentation attached to the funds turned in, the bookkeeper cannot reconcile or determine the accuracy of the cash count sheet and the actual amount deposited.

Recommendation

Sub-receipts should be used by teachers/advisors when conducting fundraising activities. For certain events, a class roster or tally sheet may be sufficient in place of using a sub-receipt book. Prenumbered receipts should be issued, a classroom roster, or a tally sheet should be completed, for all collections by teachers/advisors which contain a description of the source of the funds. The documentation issued/prepared by the teachers/advisors should be forwarded with the funds to the bookkeeper as documentation that all funds collected have been deposited.

Inventory - Student Store and Concession

Observation

During our audit, we discovered that items for sale did not have regular inventory counts. When inventory is not tracked and reconciled to sales, it is impossible to determine if all funds received have been deposited.

Recommendation

Without taking inventory the site is unable to determine if merchandise has been misplaced. According to the policies and procedures outlined in the *Associated Student Body Accounting Manual, Fraud Prevention Guide and Desk Reference* published by the Fiscal Crisis & Management Assistance Team (FCMAT) which is available at www.fcmat.org, a physical inventory should be taken quarterly under the supervision of the student store advisor. The inventory listing should contain a description, unit cost, quantity, and extended value. Daily sales information should be used to reconcile ending inventory to a physical count. This information is necessary in order to analyze sales activity, profits, and to determine if merchandise has been misplaced. The June 30 inventory report would also be used in the preparation of the student bodies' financial statements.

Revenue Potentials

Observation

Revenue potential forms are not consistently completed in full to document and control fundraising activities as they occur. These forms supply an element of internal control without which it is difficult to determine the success of a fundraiser and to track money as it is spent and received.

Recommendation

The revenue potential form is a vital internal control tool; it should be used to document potential revenues, expenditures, and also to document actual revenue and expenditures. This allows an analysis of the fundraiser to be conducted, indicating to the staff the success or failure of the completed event. The revenue potential also indicates weak control areas in the fundraising procedures at the site, including lost or stolen merchandise, problems with collecting all funds due and so forth. The revenue potential form used at the site should contain four major elements. These are:

- **Potential Income**-This lists the selling price of the item multiplied by the number of items purchased to compute the total income that should be deposited from the fundraiser if all the items were sold and all the funds were turned in. This element should also be utilized to track the cost of the items, check numbers used to purchase the items, and the purchase dates. This purchasing information is a good reference source for future sales and also tracks cost so profits can be determined.
- **Receipts/Fundraiser Deposits**-This records all deposits turned in which are from funds generated from the sale. The receipt number issued to the advisor from the bookkeeper, date, and deposit amount should be logged. This is necessary to be able to recap the deposits of the sale and to trace these deposits to the appropriate accounts at the end of the sale to the appropriate accounts to ensure all postings were correct.
- **Analysis**-This section is used to compare the potential income as calculated in the potential income section to the actual funds raised as calculated in the Receipts/Fundraiser Deposits section. The difference between these two amounts should be documented explained. The explanation can consist of merchandise not sold, merchandise lost or destroyed, or funds lost or stolen.

- Recap-This section figures the net profit of the sale. Further fundraisers of this type can be planned or canceled depending on the information calculated in this section.

LIVINGSTON HIGH SCHOOL - ASSOCIATED STUDENT BODY (ASB)

Cash Receipts

Observation

During the audit of the cash receipts system, we discovered that teachers/advisors are not consistently using sub-receipt books or a class roster (there is no supporting documentation) to document when funds are being turned in, how much, and by which students. Without this supporting documentation we cannot determine if deposits are intact or if the teachers are forwarding funds to the ASB bookkeeper in a timely manner. When there is no documentation attached to the funds turned in, the bookkeeper cannot reconcile to determine the accuracy of the cash count sheet and the actual amount turned in.

Recommendation

Sub-receipts should be used by teachers/advisors when conducting fundraising activities. For certain events, a class roster or tally sheet may be sufficient in place of using a sub-receipt book. Prenumbered receipts should be issued, a classroom roster, or a tally sheet should be completed, for all collections by teachers/advisors which should include a specific description of the source of the funds. The documentation issued/prepared by the teachers/advisors should be forwarded with the funds to the bookkeeper as documentation that all funds collected have been turned in.

Inventory

Observation

During our audit, we noted the following deficiencies:

- Concession stand event inventory is inadequate and cannot be reconciled back to funds collected. Beginning and ending inventory is not consistently documented; therefore, total sales cannot be reconciled to the amount turned in to the Bookkeeper.
- Quarterly inventory is not performed for the Concessions and Pacific Club and therefore an analysis cannot be performed for what should be on hand to what is actually on hand.

Recommendation

The site should implement the following procedures:

- Concession stands should take inventory at the beginning and ending of the event. The difference should then be multiplied by the respective price to determine Total Sales. This should be compared to the actual amount of funds received and any discrepancies should be documented and explained.
- Quarterly inventory should be performed under the supervision of an Advisor and the amounts on hand should be compared to what should be on hand. The amount that should be on hand can be derived from the last "daily inventory" of the period as long as all inventory changes (sales and purchases) are properly accounted for.

Further information can be found in the *Associated Student Body Accounting Manual, Fraud Prevention Guide and Desk Reference* published by the Fiscal Crisis & Management Assistance Team (FCMAT) which is available at www.fcmat.org.

Prohibited Purchases

Observation

As discussed in prior year, we discovered that when teachers and students go to Costco to purchase student store supplies, the students are treated to hot dogs, pizza, and drinks as a reward for helping out. While this practice is not material to the fiduciary, it is prohibited as it benefits a targeted segment of the Associated Student Body and without prior approval.

Recommendation

Do not use Associated Student Body funds to reward any segment of the Associated Student Body. Find nonfinancial means to express appreciation for assistance with day-to-day operations of the Associated Student Body and its enterprise endeavors.

MERCED HIGH SCHOOL - ASSOCIATED STUDENT BODY (ASB)

Prohibited Expenditures

Observation

We noted the following instances of prohibited expenditures:

- A cellphone was purchased for an official to replace his cellphone that stolen during a football game.
- New slip and fall prevention mats were purchased for the gym.
- Food was purchased for a staff/student luncheon.

Financial responsibility for personal items that are lost or stolen at the site is not assumed by the Associated Student Body.

According to the Associated Student Body Accounting Manual, Fraud Prevention Guide and Desk Reference published by the Fiscal Crisis & Management Assistance Team (FCMAT) which is available at www.fcmat.org, prohibited expenditures include but not limited to:

- Salaries or supplies that are the responsibility of the district. Some examples are teachers' salaries and negotiated stipends, curriculum supplies, and office supplies and equipment.
- Employee appreciation gifts or meals.

Recommendation

The Student Body funds should not be used for any expenditure which does not "directly promote the general welfare, morale or educational experience of the students, or are considered a district responsibility...", FCMAT Associated Student Body Accounting Manual, Fraud Prevention Guide and Desk Reference.

Revenue Potentials

Observation

During our audit, we noted revenue potential forms which were on file that contained only preliminary "potential" income reported. The "recap" portion of the form that lists actual collections, compares actual income to the potential, and provides for discrepancies, is still not being completed consistently.

Recommendation

The site should implement procedures in which all revenue potential forms are completed in full. These forms supply an element of internal control without which it is difficult to determine the success of a fundraiser and to track money as it is spent and received. This allows an analysis of the fundraiser to be conducted, indicating to the staff the success or failure of the completed project. In addition, the form allows the bookkeeper to compare the advisors log of the deposits made for the fundraiser to the financial records of the appropriate account to ensure all entries were correctly posted. The revenue potential form also indicates the weak control areas in the fundraising procedures, including lost or stolen merchandise, problems with collecting all moneys due and so forth. Revenue earned in the student body fund is subject to greater risk of loss due to the nature of the fundraising events and decentralization of the cash collection procedures. The revenue potential form and reconciliation are vital internal control tools that are used to document revenues, expenditures, potential revenue and actual revenue for fundraisers.

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

Vannink, Trine, Day & Co., LLP

Fresno, California
December 11, 2018