

**VALLECITOS SCHOOL DISTRICT
COUNTY OF SAN DIEGO
FALLBROOK, CALIFORNIA**

AUDIT REPORT

JUNE 30, 2019

Introductory Section

Vallecitos School District
 Audit Report
 For The Year Ended June 30, 2019

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Financial Section

VALLECITOS SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2019

As management of the Vallecitos School District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2019. We encourage readers to consider the information presented here in conjunction with the District's basic financial statements, which begin immediately following this analysis. This annual financial report consists of two main parts (1) Management's Discussion and Analysis, (2) Basic Financial Statements, followed by Required Supplementary Information.

These financial statements consist of a series of financial statements prepared in accordance with the Governmental Accounting Standards Board Statement No. 34. *Basic Financial Statements – Management Discussion and Analysis for the State and Local Governments*.

FINANCIAL HIGHLIGHTS

- The change in net position for the year was an increase of \$1,078,957.
- The District had an excess of revenue over expenditures in the General Fund (before transfers) in the amount of \$16,999 in the current year compared \$70,724 in the previous year.
- This year the District had additions to capital assets of \$345,899.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements.

Basic Financial Statements

The basic financial statements include government-wide financial statements and fund statements. The two sets of statements are tied together by reconciliation showing why they differ.

The District as a whole is reported in the government-wide statements and uses accounting methods similar to those used by companies in the private sector.

VALLECITOS SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2019

OVERVIEW OF FINANCIAL STATEMENTS (continued)

Basic Financial Statements (continued)

More detailed information about the District's most significant funds, not the District as a whole, is provided in the fund financial statements. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

The *Statement of Net Position*, a government-wide statement, presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *Statement of Activities*, a government-wide statement, presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The *Balance Sheet* for governmental funds presents financial information by fund types showing money left at year-end available for spending.

The *Statement of Revenues, Expenditures and Changes in Fund Balances* for all governmental fund types focuses on how money flows into and out of the various funds.

The *Notes to the Basic Financial Statements* are included to provide more detailed data and explain some of the information in the statements.

The *Required Supplementary Information* provides a budgetary comparison of each major fund and the schedules relating to the net pension and OPEB liabilities.

The *Supplementary Information* gives an overview of the operations of the District, governing body and budgetary comparisons of the non-major funds.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Position

To begin our analysis, a summary of the District's Statement of Net Position is presented in Table 1 below for the current year and the prior year.

VALLECITOS SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2019

Net position may serve over time, as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$1,078,957 as of June 30, 2019. A large portion of the District's net position reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture, and equipment.); less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its constituents; consequently, these assets are not available for future spending.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and disposal of capital assets, and the depreciation of capital assets.

TABLE 1
Condensed Statement of Net Position

| | 2019 | 2018 | \$ Change | % Change |
|---------------------------------------|------------------|------------------|------------------|-----------------|
| ASSETS | | | | |
| Current and other assets | 2,621,831 | 2,198,134 | 423,697 | 19.3% |
| Capital assets, net of depreciation | 1,093,194 | 846,246 | 246,948 | 29.2% |
| TOTAL ASSETS | 3,715,025 | 3,044,380 | 670,645 | 22.0% |
| DEFERRED OUTFLOWS OF RESOURCES | | | | |
| | 808,836 | 882,761 | (73,925) | -8.4% |

Condensed Statement of Net Position

| | 2019 | 2018 | \$ Change | % Change |
|--------------------------|------------------|------------------|------------------|-----------------|
| LIABILITIES | | | | |
| Current Liabilities | 559,421 | 1,154,532 | (595,111) | -51.5% |
| General long-term debt | 2,286,099 | 2,628,960 | (342,861) | -13.0% |
| TOTAL LIABILITIES | 2,845,520 | 3,783,492 | 937,972 | -24.8% |

| | | | | |
|--------------------------------------|---------|---------|---------|--------|
| DEFERRED INFLOWS OF RESOURCES | | | | |
| | 599,384 | 296,120 | 303,264 | 102.4% |

| | | | | |
|----------------------------------|------------------|------------------|------------------|----------------|
| NET POSITION | | | | |
| Net investment in capital assets | 1,093,194 | 846,246 | 246,948 | 29.2% |
| Restricted | 473,281 | 846,181 | (372,900) | 44.1% |
| Unrestricted | (487,518) | (1,844,898) | 1,357,380 | -73.6% |
| TOTAL NET POSITION | 1,078,957 | (152,471) | 1,231,428 | -807.6% |

VALLECITOS SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2019

Statement of Activities

- The District's total revenues for the fiscal year ended June 30, 2019, excluding interfund transfers, decreased by \$126,408. This was due primarily to deletion of Prop 39 Clean Energy Jobs Act Funding.
- The District's total expenses decreased by \$546,362.
- The District's net position was \$1,078,957

The following table presents a summary of the Statement of Activities for the fiscal year ended June 30, 2019, and June 30, 2018:

TABLE 2
Condensed Statement of Activities

| | 2019 | 2018 | \$ Change | % Change |
|---------------------------------|------------------|------------------|------------------|-----------------|
| REVENUES | | | | |
| Program revenues | 788,220 | 952,457 | (164,237) | -17.2% |
| General revenues | 3,106,695 | 2,333,928 | 772,767 | 33.1% |
| TOTAL REVENUES | 3,894,915 | 3,286,385 | 608,530 | 15.9% |
| FUNCTIONAL EXPENSES | | | | |
| Instruction | 1,695,976 | 1,889,827 | (193,851) | -10.3% |
| Instruction-related services | 238,893 | 277,131 | (38,238) | -13.8% |
| Pupil services | 98,028 | 29,948 | 68,080 | 227.3% |
| Ancillary services | 3,331 | 2,994 | 337 | 11.3% |
| Community services | | | | |
| General administration | 400,557 | 364,269 | 36,288 | 10.0% |
| Plan services | 226,702 | 192,943 | 33,759 | 17.5% |
| Other outgo | | 1,961 | (1,961) | |
| Depreciation (unallocated) | - | - | - | |
| TOTAL EXPENSES | 2,663,487 | 2,759,073 | (95,586) | -3.5% |
| CHANGE IN NET POSITION | 1,231,428 | 527,312 | 704,116 | 133.5% |
| NET POSITION - BEGINNING | (152,471) | (679,784) | 527,313 | -77.6% |
| Prior Period Adjustment | | 1 | (1) | |
| NET POSITION - ENDING | 1,078,957 | (152,471) | 1,231,428 | -807.6% |

VALLECITOS SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2019

Significant Changes in Individual Funds

TABLE 3
Individual Fund Balances

| | <u>2019</u> | <u>2018</u> | <u>\$ Change</u> | <u>% Change</u> |
|-------------------------------|------------------|------------------|------------------|-----------------|
| General Fund | \$1,658,910 | \$1,641,911 | \$ 16,999 | 1.0% |
| Capital Facilities Fund | 21,775 | 12,704 | 9,071 | 71.4% |
| Child Development Fund | 12,174 | 7,460 | 4,714 | 63.1% |
| County School Facilities Fund | 369,549 | - | 369,549 | 369.5% |
| Total Fund Balances | <u>2,062,408</u> | <u>1,662,075</u> | <u>400,333</u> | <u>24.1%</u> |

General Fund Budgetary Highlights

| | <u>Budgeted</u> | <u>Actual</u> | <u>Variance</u> |
|------------------------------|-----------------|---------------|-----------------|
| Certificated salaries | \$1,121,700 | \$1,136,495 | \$ (14,795) |
| Classified salaries | 373,400 | 414,233 | (40,833) |
| Employee benefits | 508,195 | 650,825 | (142,630) |
| Services and other operating | 546,095 | 508,879 | 37,216 |

The District's total budget for the General Fund Budget for this year showed an excess of revenues over expenditures (before transfers) of \$90,757 compared to the actual amount of \$15,275. The District's financial results were over the final budget by \$51,606.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Increases to capital assets during the year were primarily due to the new septic system.

TABLE 4
Changes in Capital Assets

| | <u>2019</u> | <u>2018</u> | <u>\$ Change</u> | <u>% Change</u> |
|--|--------------------|--------------------|------------------|-----------------|
| Land | \$ 6,161 | \$ 6,161 | \$ - | 0.0% |
| Buildings | 1,150,604 | 902,421 | 248,183 | 27.5% |
| Land improvements | 646,539 | 646,539 | - | 0.0% |
| Equipment | 351,667 | 253,951 | 97,716 | 38.5% |
| Less: accumulated depreciation | <u>(1,061,777)</u> | <u>(1,001,984)</u> | <u>(59,793)</u> | <u>6.0%</u> |
| Total capital assets, net of depreciation | <u>1,093,194</u> | <u>807,088</u> | <u>286,106</u> | <u>35.4%</u> |

VALLECITOS SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2019

Long-Term Liabilities

TABLE 5
Changes in Long-Term Liabilities

| | <u>2019</u> | <u>2018</u> | <u>\$ Change</u> | <u>% Change</u> |
|-----------------------------|------------------|------------------|------------------|-----------------|
| Net Pension Liability | \$2,286,099 | \$2,628,960 | \$(342,861) | -13.0% |
| Total Long-term Liabilities | <u>2,286,099</u> | <u>2,628,960</u> | <u>(342,861)</u> | -13.0% |

FACTORS BEARING ON THE DISTRICT'S FUTURE

The District's outlook for future years is tied to growth and the Local Control Funding Formula (LCFF) allocation. As with many other Districts, the District is facing the challenge of covering step and column increases in employee salaries as well as increases in STRS and PERS contribution rates, along with other fixed costs. Another area of challenge will be continued and increasing facilities maintenance and repair needs due to the age of the district buildings and equipment.

CONTACTING THE DISTRICT

This financial report is designed to provide our citizens, taxpayers 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 regarding this report, please direct them to Linda Miller, Business Manager at (760) 728-7092, or by mail at 5211 5TH Street, Fallbrook CA 92028.

Basic Financial Statements

VALLECITOS SCHOOL DISTRICT
 BALANCE SHEET - GOVERNMENTAL FUNDS
 JUNE 30, 2019

| | General Fund | County School Facilities Fund | Other Governmental Funds | Total Governmental Funds |
|--------------------------------------|---------------------|-------------------------------------|--------------------------------|--------------------------------|
| ASSETS: | | | | |
| Cash in County Treasury | \$ 1,872,413 | \$ 366,405 | \$ 33,901 | \$ 2,272,719 |
| Cash in Revolving Fund | 5,000 | - | - | 5,000 |
| Accounts Receivable | 312,207 | 3,144 | 28,759 | 344,110 |
| Due from Other Funds | 177,983 | - | - | 177,983 |
| Total Assets | <u>2,367,603</u> | <u>369,549</u> | <u>62,660</u> | <u>2,799,812</u> |
| LIABILITIES AND FUND BALANCE: | | | | |
| Liabilities: | | | | |
| Accounts Payable | \$ 558,693 | \$ - | \$ 728 | \$ 559,421 |
| Due to Other Funds | 150,000 | - | 27,983 | 177,983 |
| Total Liabilities | <u>708,693</u> | <u>-</u> | <u>28,711</u> | <u>737,404</u> |
| Fund Balance: | | | | |
| Nonspendable Fund Balances: | | | | |
| Revolving Cash | 5,000 | - | - | 5,000 |
| Restricted Fund Balances | 77,487 | 369,549 | 12,174 | 459,210 |
| Assigned Fund Balances | 662,755 | - | 21,775 | 684,530 |
| Unassigned: | | | | |
| Reserve for Economic Uncertainty | 157,000 | - | - | 157,000 |
| Other Unassigned | 756,668 | - | - | 756,668 |
| Total Fund Balance | <u>1,658,910</u> | <u>369,549</u> | <u>33,949</u> | <u>2,062,408</u> |
| Total Liabilities and Fund Balances | <u>\$ 2,367,603</u> | <u>\$ 369,549</u> | <u>\$ 62,660</u> | <u>\$ 2,799,812</u> |

The accompanying notes are an integral part of this statement.

VALLECITOS SCHOOL DISTRICT
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET POSITION
 JUNE 30, 2019

Total fund balances - governmental funds balance sheet \$ 2,062,408

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

Capital assets: In governmental funds, only current assets are reported. In the statement of net position, all assets are reported, including capital assets and accumulated depreciation.

| | | | |
|---|-------------|--|-----------|
| Capital assets relating to governmental activities, at historical cost: | 2,154,973 | | |
| Accumulated depreciation | (1,061,777) | | |
| Net | | | 1,093,196 |

Long-term liabilities: In governmental funds, only current liabilities are reported. In the statement of net position, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consisted of:

| | | | |
|-----------------------|-----------|--|-------------|
| Net Pension Liability | 2,286,099 | | |
| | | | (2,286,099) |

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

| | | | |
|--|-----------|--|--|
| Deferred Outflows of Resources - Pension Related | 808,836 | | |
| Deferred Inflows of Resources - Pension Related | (599,384) | | |

Total net position-governmental activities \$ 1,078,957

The accompanying notes are an integral part of this statement.

VALLECITOS SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

Net change in fund balances - total governmental funds \$ 400,333

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

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

| | | |
|---------------------------------|-----------------|---------|
| Expenditures for capital outlay | 306,742 | |
| Depreciation expense | <u>(59,793)</u> | |
| Net | | 246,949 |

Earned but unavailable revenues. In governmental funds, revenues are recognized only to the extent that they are "available", meaning they will be collected soon enough after the end of the period to finance expenditures of that period in the government-wide statements, revenue is recognized when earned, regardless of availability. The amount of earned but unavailable revenues relating to the current period, less revenues that became available in the current period but related to a prior period, is: 618,474

Pensions: In government funds, pension costs are recognized when employer contributions are made. In the statement of activities, pension costs are recognized on the accrual basis. This year, the difference between accrual-basis pension costs and actual employer contributions was: (34,328)

Change in net position of governmental activities - statement of activities \$ 1,231,428

The accompanying notes are an integral part of this statement.

VALLECITOS SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019

A. Summary of Significant Accounting Policies

Vallecitos School District (District) accounts for its financial transactions in accordance with the policies and procedures of the Department of Education's "California School Accounting Manual". The accounting policies of the District conform to accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

1. Reporting Entity

The District operates under a locally elected Board form of government and provides educational services as mandated by the state. A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student-related activities.

2. Component Units

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete. The District has no component units. Additionally, the District is not a component unit of any other reporting entity as defined by GASB Statement 14, 39 and 61.

3. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

Government-wide Statements: The statement of net position and the statement of activities include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the District's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The District reports the following major governmental funds:

General Fund. This is the District's primary operating fund. It accounts for all financial resources of the District except those required to be accounted for in another fund.

County School Facilities Fund. This fund is used to account for financial resources relating to the acquisition or construction of major capital facilities.

VALLECITOS SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019

In addition, the District reports the following fund types:

Special Revenue Funds: These funds are established 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 and that compose a substantial portion of the inflows of the fund. Additional resources that are restricted, committed, or assigned to the purpose of the fund may also be reported in the fund.

Capital Projects Funds: These funds are established 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).

Additionally, the District reports the following fiduciary fund types:

The District has one agency fund, the associated student body fund, which is used to account for funds raised by students and held for student activities.

Fiduciary funds are reported in the fiduciary fund financial statements. However, because their assets are held in a trustee or agent capacity and are therefore not available to support District programs, these funds are not included in the government-wide statements.

b. Measurement Focus, Basis of Accounting

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

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

When the District incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the District's policy to use restricted resources first, then unrestricted resources.

4. Encumbrances

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

VALLECITOS SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019

7. Assets, Liabilities, and Equity

a. Deposits and Investments

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

In accordance with Education Code Section 41001, the District maintains substantially all its cash in the San Diego County Treasury. The county pools these funds with those of other districts in the county and invests the cash. These pooled funds are carried at cost, which approximates market value. Interest earned is deposited quarterly into participating funds, except for the Tax Override Funds, in which interest earned is credited to the general fund. Any investment losses are proportionately shared by all funds in the pool.

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

Information regarding the amount of dollars invested in derivatives with average cost County Treasury was not available.

b. Stores Inventories and Prepaid Expenditures

Inventories are recorded using the purchases method in that the cost is recorded as an expenditure at the time individual inventory items are purchased. Inventories are valued at average cost and consist of expendable supplies held for consumption.

The District has the option of reporting an expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditure when incurred.

c. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. A capitalization threshold of \$5,000 is used.

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

| Asset Class | Estimated Useful Lives |
|-----------------------|------------------------|
| Buildings | 25-50 |
| Building Improvements | 20 |
| Vehicles | 5-15 |
| Office Equipment | 5-15 |
| Computer Equipment | 5-15 |

VALLECITOS SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019

Assigned Fund Balance - represents amounts which the District intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the board of directors or by an official or body to which the board of directors delegates the authority. The board of directors has delegated authority to the assistant superintendent of business services. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund's primary purpose. Assignments within the general fund conveys that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the District itself.

Unassigned Fund Balance - represents amounts which are unconstrained in that they may be spent for any purpose. Only the general fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed or assigned.

When an expenditure is incurred for a purpose 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.

8. Deferred Inflows and Deferred Outflows of Resources

Deferred outflows of resources is a consumption of net position that is applicable to a future reporting period. Deferred inflows of resources is an acquisition of net position that is applicable to a future reporting period. Deferred outflows of resources and deferred inflows of resources are recorded in accordance with GASB Statement numbers 63 and 65.

9. GASB 54 Fund Presentation

Consistent with fund reporting requirements established by GASB Statement No. 54, Fund 17 (Special Reserve Fund for Other Than Capital Outlay) is merged with the General Fund for purposes of presentation in the audit report.

10. Pensions

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

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

| | |
|-------------------------|-------------------------------|
| Valuation Date (VD) | June 30, 2017 |
| Measurement Date (MD) | June 30, 2018 |
| Measurement Period (MP) | July 1, 2017 to June 30, 2018 |

VALLECITOS SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019

11. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates. Actual results could differ from those estimates.

12. Fair Value Measurements

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles as defined by Governmental Accounting Standards Board (GASB) Statement No. 72. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. The hierarchy is detailed as follows:

- Level 1 Inputs: Quoted prices (unadjusted) in active markets for identical assets or liabilities that a government can access at the measurement date.
- Level 2 Inputs: Inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly.
- Level 3 Inputs: Unobservable inputs for an asset or liability.

12. Change in Accounting Policies

The District has adopted accounting policies compliant with new pronouncements issued by the Government Accounting Standards Board (GASB) that are effective for the fiscal year ended June 30, 2019. Those newly implemented pronouncements are as follows:

GASB 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. There have been no adjustments made to the financial statements or note disclosures as a result of adoption of the accounting policies pursuant to GASB 83.

GASB 88 - Certain Disclosures Related to Debt, Including Direct Borrowing 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.

There have been no adjustments to the financial statements or note disclosures as a result of adoption of the accounting policies pursuant to GASB 88.

VALLECITOS SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019

B. Compliance and Accountability

1. Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations.

| <u>Violation</u> | <u>Action Taken</u> |
|------------------|---------------------|
| None reported | Not applicable |

2. Deficit Fund Balance or Fund Net Position of Individual Funds

Following are funds having deficit fund balances or fund net position at year end, if any, along with remarks which address such deficits:

| <u>Fund Name</u> | <u>Deficit Amount</u> | <u>Remarks</u> |
|------------------|-----------------------|----------------|
| None reported | Not applicable | Not applicable |

C. Fair Value Measurement

The District's investments at June 30, 2019, categorized within the fair value hierarchy established by generally accepted accounting principles, were as follows:

| | <u>Amount</u> | <u>Fair Value Measurement Using</u> | | |
|--|---------------|---|--|--|
| | | <u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u> | <u>Significant Other Observable Inputs (Level 2)</u> | <u>Significant Unobservable Inputs (Level 3)</u> |
| External investment pools measured at fair value | | | | |
| San Diego County Treasury | \$ 2,272,719 | \$ - | \$ 2,272,719 | \$ - |
| Total investments by fair value level | \$ 2,272,719 | \$ - | \$ 2,272,719 | \$ - |

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 investments in the pool is reported in the accounting financial statements as 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 the 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.

The San Diego County Treasury is not registered with the Securities and Exchange Commission (SEC) as an investment company; however, the County Treasury acts in accordance with investment policies monitored by a Treasury Oversight Committee consisting of members appointed by participants in the investment pool and up to five members of the public having expertise, or an academic background in, public finance. In addition, the County Treasury is audited annually by an independent auditor.

VALLECITOS SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019

D. Cash and Investments

1. Cash in County Treasury:

In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the San Diego County Treasury as part of the common investment pool (\$2,272,719 as of June 30, 2019). The fair value of the District's portion of this pool as of that date, as provided by the pool sponsor, was \$2,272,719. Assumptions made in determining the fair value of the pooled investment portfolios are available from the County Treasurer.

2. Cash on Hand, in Banks, and in Revolving Fund

Cash balances on hand and in banks (\$8,733 as of June 30, 2019) and in the revolving fund (\$5,000) are insured up to \$250,000 by the Federal Depository Insurance Corporation. All cash held by the financial institution is fully insured or collateralized.

3. Investments Authorized by the California Government Code and the District's Investment Policy

The table below identifies the investment types that are authorized for the District by the California Government Code (or the District's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District's investment policy where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District's investment policy.

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

VALLECITOS SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019

4. Analysis of Specific Deposit and Investment Risks

GASB Statement No. 40 requires a determination as to whether the District was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The county is restricted by Government Code Section 53635 pursuant to Section 53601 to invest only in time deposits, U.S. government securities, state registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk.

At June 30, 2019, credit risk for the District's investments was as follows:

| <u>Investment Type</u> | <u>Rating</u> | <u>Rating Agency</u> | <u>Amount</u> |
|------------------------------------|---------------|----------------------|---------------|
| County Treasurer's Investment Pool | Unrated | Not Applicable | \$ 2,272,719 |

b. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the District's name. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the District's name.

As of June 30, 2019, the District's bank balances, and investments (including revolving cash) were not exposed to custodial credit risk.

c. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government Code. Investments in any one issuer that represent five percent or more of the total investments are either an external investment pool and are therefore exempt. As such, the District was not exposed to concentration of credit risk.

VALLECITOS SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019

d. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the county pool. As of June 30, 2019 the San Diego County treasurer did not hold any investments in debt securities and as such the District was not exposed to interest rate risk.

e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the District was not exposed to foreign currency risk.

5. Investment Accounting Policy

The District is required by GASB Statement No. 31 to disclose its policy for determining which investments, if any, are reported at amortized cost. The District's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

The District's investments in external investment pools are reported at an amount determined by the fair value per share of the pool's underlying portfolio, unless the pool is 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

E. Accounts Receivable

Accounts receivable at June 30, 2019 consisted of:

| | General Fund | County School Facilities Fund | Nonmajor Governmental Funds | Total Governmental Funds |
|-----------------------------------|-------------------|-------------------------------------|-----------------------------------|--------------------------------|
| Federal Government: | | | | |
| Special Education Cluster | \$ 66,145 | \$ - | \$ - | \$ 66,145 |
| Other Federal Programs | 11,188 | - | - | 11,188 |
| State Government: | | | | |
| Lottery | 10,289 | - | - | 10,289 |
| Special Education | 23,309 | - | - | 23,309 |
| State Preschool | - | - | 25,296 | 25,296 |
| Local Sources: | | | | |
| Interest | 24,548 | 3,144 | 495 | 28,187 |
| After School Education and Safety | 92,447 | - | - | 92,447 |
| Other Local Revenues | 84,281 | - | 2,968 | 87,249 |
| Totals | <u>\$ 312,207</u> | <u>\$ 3,144</u> | <u>\$ 28,759</u> | <u>\$ 344,110</u> |

VALLECITOS SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019

F. Capital Assets

Capital asset activity for the year ended June 30, 2019, was as follows:

| | Beginning Balances | Increases | Decreases | Ending Balances |
|---|-----------------------|-------------------|------------------|---------------------|
| <u>Governmental activities:</u> | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 6,161 | \$ - | \$ - | \$ 6,161 |
| Work in progress | 39,157 | - | 39,157 | - |
| Total capital assets not being depreciated | <u>45,318</u> | <u>-</u> | <u>39,157</u> | <u>6,161</u> |
| Capital assets being depreciated: | | | | |
| Buildings | 902,421 | 248,183 | - | 1,150,604 |
| Improvements | 646,539 | - | - | 646,539 |
| Equipment | 253,951 | 97,716 | - | 351,667 |
| Total capital assets being depreciated | <u>1,802,911</u> | <u>345,899</u> | <u>-</u> | <u>2,148,810</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | (732,015) | (32,849) | - | (764,864) |
| Improvements | (34,939) | (20,616) | - | (55,555) |
| Equipment | (235,030) | (6,328) | - | (241,358) |
| Total accumulated depreciation | <u>(1,001,984)</u> | <u>(59,793)</u> | <u>-</u> | <u>(1,061,777)</u> |
| Total capital assets being depreciated, net | <u>800,927</u> | <u>286,106</u> | <u>-</u> | <u>1,087,033</u> |
| Governmental activities capital assets, net | <u>\$ 846,245</u> | <u>\$ 286,106</u> | <u>\$ 39,157</u> | <u>\$ 1,093,194</u> |

Depreciation was charged to functions as follows:

| | |
|------------------------|------------------|
| Instruction | \$ 31,092 |
| General Administration | 21,525 |
| Plant Services | 7,176 |
| | <u>\$ 59,793</u> |

G. Interfund Balances and Activities

1. Due To and From Other Funds

Balances due to and due from other funds at June 30, 2019, consisted of the following:

| Due To Fund | Due From Fund | Amount | Purpose |
|----------------------|------------------------|-------------------|-----------------------------|
| General Fund | Child Development Fund | \$ 27,983 | Direct costs service |
| Special Reserve Fund | General Fund | 150,000 | Special facilities projects |
| | Total | <u>\$ 177,983</u> | |

All amounts due are scheduled to be repaid within one year.

2. Transfers To and From Other Funds

| Transfers From | Transfers To | Amount | Reason |
|----------------|----------------------|------------------|-----------------------------|
| General Fund | Special Reserve Fund | \$ 75,000 | Special facilities projects |
| | Total | <u>\$ 75,000</u> | |

VALLECITOS SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019

H. Short-Term Debt Activity

The District accounts for short-term debts for maintenance purposes through the General Fund. The proceeds from loans are shown in the financial statements as Other Resources. During the year ended June 30, 2019, the District did not enter into any short-term debt agreements.

I. Accounts Payable

Accounts payable at June 30, 2019 consisted of:

| | General Fund | Nonmajor Governmental Funds | Total Governmental Funds |
|------------------------------|-------------------|-----------------------------------|--------------------------------|
| Vendor Payables | \$ 95,002 | \$ - | \$ 95,002 |
| Payroll and Related Benefits | 74,106 | - | 74,106 |
| Charter School In Lieu Taxes | 389,585 | 728 | 390,313 |
| Totals | <u>\$ 558,693</u> | <u>\$ 728</u> | <u>\$ 559,421</u> |

J. Deferred Outflows of Resources

A summary of the deferred outflows of resources as of June 30, 2019 is as follows:

| <u>Description</u> | <u>Amortization Term</u> | <u>Balance July 1, 2018</u> | <u>Additions</u> | <u>Current Year Amortization</u> | <u>Balance June 30, 2019</u> |
|--------------------------------------|------------------------------|---------------------------------|-------------------|--------------------------------------|----------------------------------|
| Pension related | Varies | \$ 882,761 | \$ 322,626 | \$ 396,551 | \$ 808,836 |
| Total Deferred Outflows of Resources | | <u>\$ 882,761</u> | <u>\$ 322,626</u> | <u>\$ 396,551</u> | <u>\$ 808,836</u> |

Future amortization of deferred outflows of resources is as follows:

| <u>Year Ending June 30,</u> | <u>Pension Related</u> |
|---------------------------------|----------------------------|
| 2020 | \$ 456,513 |
| 2021 | 180,093 |
| 2022 | 158,728 |
| 2023 | 13,502 |
| Total | <u>\$ 808,836</u> |

VALLECITOS SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019

K. Deferred Inflows of Resources

A summary of the deferred inflows of resources as of June 30, 2019 is as follows:

| Description | Amortization Term | Balance July 1, 2018 | Additions | Current Year Amortization | Balance June 30, 2019 |
|-------------------------------------|-------------------|----------------------|-------------------|---------------------------|-----------------------|
| Pension related | Varies | \$ 296,120 | \$ 502,596 | \$ 199,332 | \$ 599,384 |
| Total Deferred Inflows of Resources | | <u>\$ 296,120</u> | <u>\$ 502,596</u> | <u>\$ 199,332</u> | <u>\$ 599,384</u> |

Future amortization of deferred inflows of resources is as follows:

| Year Ending June 30, | Pension Related |
|----------------------|-------------------|
| 2020 | \$ 173,950 |
| 2021 | 164,958 |
| 2022 | 159,962 |
| 2023 | 100,514 |
| Total | <u>\$ 599,384</u> |

L. Long-Term Obligations

1. Long-Term Obligation Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended June 30, 2019, are as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance | Amounts Due Within One Year |
|---------------------------------|---------------------|-------------|-------------------|---------------------|-----------------------------|
| <u>Governmental activities:</u> | | | | | |
| Net Pension Liability | \$ 2,628,960 | \$ - | \$ 342,861 | \$ 2,286,099 | \$ - |
| Total governmental activities | <u>\$ 2,628,960</u> | <u>\$ -</u> | <u>\$ 342,861</u> | <u>\$ 2,286,099</u> | <u>\$ -</u> |

2. Net Pension Liability

The District's beginning net pension liability was \$2,628,960 and decreased by \$342,861 during the year ended June 30, 2019. The ending net pension liability at June 30, 2019 was \$2,286,099. See Note N for additional information regarding the net pension liability.

M. Joint Ventures (Joint Powers Agreements)

The District participates in two joint powers agreement's (JPA) entity, the San Diego County Schools Risk Management (SDCSR) and the Fringe Benefit Consortium (FBC). The relationship between the District and the JPA's is such that the JPA's are not a component unit of the District.

The JPA's arranges for and provides for various types of insurances for its member districts as requested. The JPA's are governed by a board consisting of a representative from each member district. The board controls the operations of the JPA, including selection of management and approval of operating budgets, independent of any influence by the member districts beyond their representation on the board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionate to their participation in the JPA.

Financial information on the District's share of the SDCSR JPA and FBC JPA for the year ended June 30, 2019 was not available at the time this report was issued. The information can be obtained by contacting the JPA directly.

VALLECITOS SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019

The District's proportionate share of the net pension liability for each Plan as of June 30, 2018 and June 30, 2019 were as follows:

| | CalSTRS | | | CalPERS |
|--------------------------|--------------------------------|-----------------------------|------------------------------|---------|
| | District's Proportionate Share | State's Proportionate Share | Total For District Employees | |
| Proportion June 30, 2018 | 0.0022% | 0.0013% | 0.0035% | 0.0025% |
| Proportion June 30, 2019 | 0.0018% | 0.0010% | 0.0028% | 0.0025% |
| Change in Proportion | -0.0004% | -0.0003% | -0.0007% | |

a. Pension Expense

For the measurement period ended June 30, 2018 (fiscal year June 30, 2019), pension expense was recognized as follows:

| | CalSTRS | CalPERS | Total |
|---|--------------|------------|--------------|
| Change in Net Pension Liability (Asset) | \$ (422,569) | \$ 79,705 | \$ (342,864) |
| State On Behalf Pension Expense | (28,247) | - | (28,247) |
| Employer Contributions to Pension Expense | 182,486 | 72,608 | 255,094 |
| (Increase)/Decrease in Deferred Outflows of Resources | | | |
| Employer Contributions Subsequent to Measurement Date | (39,917) | (20,046) | (59,963) |
| Difference Between Actual & Expected Experience | 1,763 | (26,702) | (24,939) |
| Change in Assumptions | 88,307 | 13,838 | 102,145 |
| Change in Proportionate Shares | 27,393 | (5,306) | 22,087 |
| Net Difference Between Projected & Actual Earnings | 133 | 34,462 | 34,595 |
| Increase/(Decrease) in Deferred Inflows of Resources | | | |
| Difference Between Actual & Expected Experience | 1,204 | - | 1,204 |
| Change in Assumptions | - | (6,225) | (6,225) |
| Change in Proportionate Shares | 328,196 | (5,928) | 322,268 |
| Net Difference Between Projected & Actual Earnings | 6,724 | (20,707) | (13,983) |
| Total Pension Expense | \$ 145,473 | \$ 115,699 | \$ 261,172 |

b. Deferred Outflows and Inflows of Resources

At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | | |
|--|--------------------------------|------------|------------|
| | CalSTRS | CalPERS | Total |
| Pension contributions subsequent to measurement date | \$ 182,486 | \$ 72,608 | \$ 255,094 |
| Differences between actual and expected experience | 5,288 | 54,457 | 59,745 |
| Changes in assumptions | 264,921 | 77,474 | 342,395 |
| Change in employer's proportionate share | 81,780 | 16,168 | 97,948 |
| Net difference between projected and actual earnings | 199 | 53,455 | 53,654 |
| Total Deferred Outflows of Resources | \$ 534,674 | \$ 274,162 | \$ 808,836 |

| | Deferred Inflows of Resources | | |
|--|-------------------------------|-------------|--------------|
| | CalSTRS | CalPERS | Total |
| Differences between actual and expected experience | \$ (1,400) | \$ - | \$ (1,400) |
| Changes in assumptions | - | (6,225) | (6,225) |
| Change in employer's proportionate share | (331,744) | (10,915) | (342,659) |
| Net difference between projected and actual earnings | (200,074) | (49,026) | (249,100) |
| Total Deferred Inflows of Resources | \$ (533,218) | \$ (66,166) | \$ (599,384) |

VALLECITOS SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019

Pension contributions made subsequent to measurement date reported as deferred outflows of resources will be recognized as a portion of pension expense in the year ended June 30, 2020. The remaining amounts reported as deferred outflows or deferred inflows of resources will be recognized as an increase or decrease to pension expense over a five year period. Pension expense resulting from deferred outflows and deferred inflows of resources will be recognized as follows:

| Year Ended June 30 | Deferred Outflows of Resources | | Deferred Inflows of Resources | | Net Effect on Expenses |
|-----------------------|--------------------------------|------------|-------------------------------|-------------|---------------------------|
| | CalSTRS | CalPERS | CalSTRS | CalPERS | |
| 2020 | \$ 300,082 | \$ 156,431 | \$ (146,765) | \$ (27,185) | \$ 282,563 |
| 2021 | 117,528 | 62,565 | (144,939) | (20,019) | 15,135 |
| 2022 | 117,064 | 41,664 | (144,929) | (15,033) | (1,234) |
| 2023 | - | 13,502 | (96,585) | (3,929) | (87,012) |
| Total | \$ 534,674 | \$ 274,162 | \$ (533,218) | \$ (66,166) | \$ 209,452 |

c. Actuarial Assumptions

Total pension liabilities for the fiscal year ended June 30, 2019 were based on actuarial valuations were determined using the following actuarial assumptions:

| Fiscal Year Measurement Date Valuation Date Actuarial Cost Method Actuarial Assumptions: | CalSTRS | CalPERS |
|--|------------------|------------------|
| | June 30, 2019 | June 30, 2019 |
| | June 30, 2018 | June 30, 2018 |
| | June 30, 2017 | June 30, 2017 |
| | Entry Age Normal | Entry Age Normal |
| Discount Rate | 7.10% | 7.15% |
| Inflation | 2.75% | 2.50% |
| Wage Growth | 3.50% | (3) |
| Investment Rate of Return | 7.10% | 7.15% |
| Post Retirement Benefit Increase | (1) | (4) |
| Mortality | (2) | (5) |

- (1) CalSTRS post retirement benefit increases assumed at 2% simple for DB (annually) maintaining 85% purchasing power level for DB. Increases are not applicable for DBS/CBB.
- (2) CalSTRS projects mortality by setting the projection scale equal to 110% of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table issued by the Society of Actuaries.
- (3) Wage growth is a component of inflation for CalPERS assumptions.
- (4) CalPERS post retirement benefit increases assumes 2.00% until PPPA floor on purchasing power applies, 2.50% thereafter.
- (5) CalPERS mortality table was developed based on CalPERS specific data. The table includes 15 years of mortality improvement using the Society of Actuaries 90% of scale MP-2016. For more details on this table, please refer to the December 2017 experience study report (based on CalPERS demographic data from 1997 to 2015) that can be found on the CalPERS website.

VALLECITOS SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019

d. Discount Rate

The discount rate used to measure the total pension liability was 7.10% for CalSTRS and 7.15% for CalPERS. The projection of cash flows used to determine the discount rate assumed the contributions from plan members, employers, and state contributing agencies (where applicable) will be made at statutory contribution rates. To determine whether the District bond rate should be used in the calculation of a discount rate for each plan, CalSTRS and CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current discount rates are adequate and the use of the District bond rate calculation is not necessary for either plan. The stress test results are presented in a detailed report that can be obtained from the CalPERS and CalSTRS respective websites.

The CalPERS discount rate was increased from 7.50% to 7.65% at measurement date June 30, 2015 (Fiscal year June 30, 2016) to correct for an adjustment to exclude administrative expenses. Subsequently CalPERS discount rate was decreased from 7.65% to 7.15% at measurement date June 30, 2017 (Fiscal year June 30, 2018) to adjust for changes resulting from actuarially determined amounts.

The CalSTRS discount rate was adjusted from 7.60% to 7.10% for measurement date June 30, 2017 (Fiscal year June 30, 2018) to adjust for changes resulting from a new actuarial experience study.

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

CalSTRS and CalPERS are scheduled to review actuarial assumptions as part of their regular Asset Liability Management (ALM) review cycle. The last ALM completed by CalSTRS was conducted in 2015. CalSTRS is in process of completing the next ALM and expects to complete the process by November 2019. CalPERS completed their ALM in 2018 with new policies in effect on July 1, 2018. Both CalSTRS and CalPERS conduct new ALM's every 4 years.

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

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

VALLECITOS SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019

GASB 90 - Majority Equity Interests - An Amendment of GASB Statements No. 14 and No. 61

The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or a permanent fund. Those governments and funds should be measure the majority equity interest at fair value.

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

The District does not currently hold any equity interests in legally separate organizations and as such does not anticipate any adjustments to be made to the financial statements as a result of implementing this GASB Statement.

Required Supplementary Information

Required supplementary information includes financial information and disclosures required by the Governmental Accounting Standards Board but not considered a part of the basic financial statements.

VALLECITOS SCHOOL DISTRICT

EXHIBIT B-1

GENERAL FUND
 BUDGETARY COMPARISON SCHEDULE
 FOR THE YEAR ENDED JUNE 30, 2019

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|--|---------------------|---------------------|---------------------|---|
| | Original | Final | | |
| Revenues: | | | | |
| LCFF Sources: | | | | |
| State Apportionment or State Aid | \$ 1,134,254 | \$ 1,190,786 | \$ 1,191,356 | \$ 570 |
| Education Protection Account Funds | 169,345 | 135,449 | 134,879 | (570) |
| Local Sources | 865,146 | 907,265 | 907,264 | (1) |
| Federal Revenue | 144,657 | 154,477 | 154,477 | - |
| Other State Revenue | 213,792 | 207,282 | 317,150 | 109,868 |
| Other Local Revenue | 283,732 | 444,148 | 444,148 | - |
| Total Revenues | <u>2,810,926</u> | <u>3,039,407</u> | <u>3,149,274</u> | <u>109,867</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Certificated Salaries | 1,121,700 | 1,136,495 | 1,136,495 | - |
| Classified Salaries | 373,400 | 414,233 | 414,233 | - |
| Employee Benefits | 508,195 | 540,962 | 650,825 | (109,863) |
| Books And Supplies | 111,779 | 129,272 | 77,670 | 51,602 |
| Services And Other Operating Expenditures | 546,095 | 508,879 | 508,879 | - |
| Capital Outlay | 59,000 | 345,899 | 345,899 | - |
| Total Expenditures | <u>2,720,169</u> | <u>3,075,740</u> | <u>3,134,001</u> | <u>(58,261)</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>90,757</u> | <u>(36,333)</u> | <u>15,273</u> | <u>51,606</u> |
| Other Financing Sources (Uses): | | | | |
| Transfers Out | <u>(75,000)</u> | <u>(75,000)</u> | <u>(75,000)</u> | <u>-</u> |
| Total Other Financing Sources (Uses) | <u>(75,000)</u> | <u>(75,000)</u> | <u>(75,000)</u> | <u>-</u> |
| Net Change in Fund Balance | 15,757 | (111,333) | (59,727) | 51,606 |
| Fund Balance, July 1 | 1,489,961 | 1,489,961 | 1,489,961 | - |
| Fund Balance, June 30 | <u>\$ 1,505,718</u> | <u>\$ 1,378,628</u> | <u>\$ 1,430,234</u> | <u>\$ 51,606</u> |

| <u>Reporting Period</u> | <u>June 30, 2018</u> | <u>June 30, 2019</u> |
|-----------------------------------|----------------------|----------------------|
| Measurement Date | 06/30/17 | 06/30/18 |
| Valuation Date | 06/30/16 | 06/30/17 |
| Experience Study | 07/01/97 - 06/30/11 | 07/01/97 - 06/30/15 |
| Actuarial Cost Method | Entry Age Normal | Entry Age Normal |
| Investment Rate of Return | 7.15% | 7.50% |
| Consumer Price Inflation | 2.75% | 2.50% |
| Wage Growth (Average) | 3.00% | 3.00% |
| Post-retirement Benefit Increases | 2.00% Simple | 2.00% Simple |

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. For more details on this table please refer to the December 2017 experience study report (based on demographic data from 1997 to 2015) available on CalPERS website.

Combining Statements as Supplementary Information

This supplementary information includes financial statements and schedules not required by the Governmental Accounting Standards Board, nor a part of the basic financial statements, but are presented for purposes of additional analysis.

VALLECITOS SCHOOL DISTRICT

COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2019

| | Special Revenue Fund <u>Child Development Fund</u> | Capital Projects Fund <u>Capital Facilities Fund</u> | Total Nonmajor Governmental Funds (See Exhibit A-3) <u></u> |
|--------------------------------------|---|---|--|
| ASSETS: | | | |
| Cash in County Treasury | \$ 15,251 | \$ 18,650 | \$ 33,901 |
| Accounts Receivable | 25,596 | 3,163 | 28,759 |
| Total Assets | <u>40,847</u> | <u>21,813</u> | <u>62,660</u> |
| LIABILITIES AND FUND BALANCE: | | | |
| Liabilities: | | | |
| Accounts Payable | \$ 690 | \$ 38 | \$ 728 |
| Due to Other Funds | 27,983 | - | 27,983 |
| Total Liabilities | <u>28,673</u> | <u>38</u> | <u>28,711</u> |
| Fund Balance: | | | |
| Restricted Fund Balances | 12,174 | - | 12,174 |
| Assigned Fund Balances | - | 21,775 | 21,775 |
| Total Fund Balance | <u>12,174</u> | <u>21,775</u> | <u>33,949</u> |
| Total Liabilities and Fund Balances | <u>\$ 40,847</u> | <u>\$ 21,813</u> | <u>\$ 62,660</u> |

VALLECITOS SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2019

| | Special Revenue Fund <u>Child Development Fund</u> | Capital Projects Fund <u>Capital Facilities Fund</u> | Total Nonmajor Governmental Funds (See Exhibit A-5) <u></u> |
|--|---|---|--|
| Revenues: | | | |
| Other State Revenue | \$ 81,878 | \$ - | \$ 81,878 |
| Other Local Revenue | 677 | 9,071 | 9,748 |
| Total Revenues | <u>82,555</u> | <u>9,071</u> | <u>91,626</u> |
| Expenditures: | | | |
| Current: | | | |
| Instruction | 77,841 | - | 77,841 |
| Total Expenditures | <u>77,841</u> | <u>-</u> | <u>77,841</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>4,714</u> | <u>9,071</u> | <u>13,785</u> |
| Net Change in Fund Balance | 4,714 | 9,071 | 13,785 |
| Fund Balance, July 1 | 7,460 | 12,704 | 20,164 |
| Fund Balance, June 30 | <u>\$ 12,174</u> | <u>\$ 21,775</u> | <u>\$ 33,949</u> |

Other Supplementary Information

This section includes financial information and disclosures not required by the Governmental Accounting Standards Board and not considered a part of the basic financial statements. It may, however, include information which is required by other entities.

Supplementary Information Section

VALLECITOS SCHOOL DISTRICT
 SCHEDULE OF AVERAGE DAILY ATTENDANCE
 YEAR ENDED JUNE 30, 2019

TABLE D-1

| | Second Period Report #D2D592DO | | Annual Report #C9491BFC | |
|-----------------------|-----------------------------------|---------|----------------------------|---------|
| | Original | Revised | Original | Revised |
| TK/K-3: | | | | |
| Regular ADA | 91.31 | N/A | 91.68 | N/A |
| TK/K-3 Totals | 91.31 | N/A | 91.68 | N/A |
| Grades 4-6: | | | | |
| Regular ADA | 60.27 | N/A | 60.70 | N/A |
| Grades 4-6 Totals | 60.27 | N/A | 60.70 | N/A |
| Grades 7 and 8: | | | | |
| Regular ADA | 46.05 | N/A | 46.53 | N/A |
| Grades 7 and 8 Totals | 46.05 | N/A | 46.53 | N/A |
| ADA Totals | 197.63 | N/A | 198.91 | N/A |

N/A - There were no audit findings which resulted in necessary revisions to attendance.

Average daily attendance is a measurement of the number of pupils attending classes of the district or charter school. 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 and charter schools. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

VALLECITOS SCHOOL DISTRICT
 SCHEDULE OF INSTRUCTIONAL TIME
 YEAR ENDED JUNE 30, 2019

TABLE D-2

| <u>Grade Level</u> | <u>Ed. Code 46207 Minutes Requirement</u> | <u>2018-19 Actual Minutes</u> | <u>Number of Days Traditional Calendar</u> | <u>Number of Days Multitrack Calendar</u> | <u>Status</u> |
|---------------------------|---|---------------------------------------|--|---|---------------|
| Transitional Kindergarten | 36,000 | 44,001 | 180 | - | Complied |
| Kindergarten | 36,000 | 44,001 | 180 | - | Complied |
| Grade 1 | 50,400 | 57,031 | 180 | - | Complied |
| Grade 2 | 50,400 | 57,031 | 180 | - | Complied |
| Grade 3 | 50,400 | 57,031 | 180 | - | Complied |
| Grade 4 | 54,000 | 58,326 | 180 | - | Complied |
| Grade 5 | 54,000 | 58,326 | 180 | - | Complied |
| Grade 6 | 54,000 | 58,326 | 180 | - | Complied |
| Grade 7 | 54,000 | 58,326 | 180 | - | Complied |
| Grade 8 | 54,000 | 58,326 | 180 | - | Complied |

School districts and charter schools must maintain their instructional minutes as defined in Education Code Section 46207. This schedule is required of all districts, including basic aid districts.

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. This schedule presents information on the amount of instruction time offered by the District and whether the District complied with the provisions of Education Code Sections 46200 through 46206. The District met or exceeded its target funding.

VALLECITOS SCHOOL DISTRICT
 SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
 YEAR ENDED JUNE 30, 2019

TABLE D-3

| General Fund | Budget 2020 (See Note 1) | 2019 | 2018 | 2017 |
|---|--------------------------------|--------------|--------------|--------------|
| Revenues and other financial sources | \$ 2,936,870 | \$ 3,039,407 | \$ 3,165,815 | \$ 2,871,937 |
| Expenditures | 3,022,487 | 3,024,134 | 2,477,772 | 2,682,822 |
| Other uses and transfers out | 75,000 | 75,000 | 75,000 | - |
| Total outgo | 3,097,487 | 3,099,134 | 2,552,772 | 2,682,822 |
| Change in fund balance (deficit) | (160,617) | (59,727) | 613,043 | 189,115 |
| Ending fund balance | \$ 1,269,617 | \$ 1,430,234 | \$ 1,489,961 | \$ 876,918 |
| Available reserves (See Note 2) | \$ 1,187,129 | \$ 1,347,746 | \$ 1,214,895 | \$ 812,725 |
| Available reserves as a percentage of total outgo (See Note 3) | 38.3% | 43.5% | 47.6% | 30.3% |
| Total long-term debt | \$ - | \$ - | \$ - | \$ - |
| Average daily attendance at P-2 | 192 | 198 | 199 | 199 |

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

The fund balance of the general fund has increased \$553,316 over the past two years. The fiscal year 2019-20 budget projects a decrease of \$160,617. For a district of this size, the State recommends available reserves of at least 5% of total general fund expenditures, transfers out and other uses (total outgo).

The District has no long-term debt commitments.

Average daily attendance has decreased by 1 over the past two years.

Notes:

- 1 Budget 2020 is included for analytical purposes only and has not been subjected to audit.
- 2 Available reserves consist of all unassigned fund balances and all funds reserved for economic uncertainties contained within the General Fund.
- 3 On behalf payments of \$195,098, \$87,256, and \$80,803 have been excluded from the calculation of available reserves for the fiscal years ending June 30, 2019, 2018, and 2017.

VALLECITOS SCHOOL DISTRICT
 RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET
 REPORT WITH AUDITED FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2019

TABLE D-4

| | General Fund | Special Reserve Fund for Other Than Capital Outlay |
|--|-----------------|---|
| June 30, 2019, annual financial and budget report fund balances | \$ 1,430,234 | \$ 228,676 |
| Adjustments and reclassifications: | | |
| Increasing (decreasing) the fund balance: | | |
| GASB 54 presentation | 228,676 | (228,676) |
| Net adjustments and reclassifications | 228,676 | (228,676) |
| June 30, 2019, audited financial statement fund balances | \$ 1,658,910 | \$ - |

This schedule provides the information necessary to reconcile the fund balances of all funds and the total liabilities balance of the general long-term debt account group as reported on the SACS report to the audited financial statements. Funds that required no adjustment are not presented.

No charter schools are chartered by Vallecitos School District.

| <u>Charter Schools</u> | <u>Included In Audit?</u> |
|------------------------|-------------------------------|
| None | N/A |

Other 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*

Board of Trustees
Vallecitos School District
Fallbrook, California 92028

Members of the Board of Trustees:

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 Vallecitos School District, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Vallecitos School District's basic financial statements, and have issued our report thereon dated December 14, 2019.

Internal Control Over Financial Reporting

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

Purpose of this Report

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

Williamson Attley King & Co, LLP

El Cajon, California
December 14, 2019

Independent Auditor's Report on State Compliance

Board of Trustees
Vallecitos School District
Fallbrook, California 92028

Members of the Board of Trustees:

Report on State Compliance

We have audited the District's compliance with the types of compliance requirements described in the *2018-19 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed in Title 5, *California Code of Regulations*, Section 19810 that could have a direct and material effect on each of the District's state programs identified below for the fiscal year ended June 30, 2019.

Management's Responsibility for State Compliance

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each applicable program as identified in the State's audit guide, *2018-19 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* prescribed in Title 5, *California Code of Regulations*, Section 19810. 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 State's audit guide, *2018-19 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed in Title 5, *California Code of Regulations*, Section 19810. Those standards and audit guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on the state programs noted below occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

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

| <u>Compliance Requirements</u> | <u>Procedures in Audit Guide Performed?</u> |
|--|---|
| LOCAL EDUCATION AGENCIES | |
| OTHER THAN CHARTER SCHOOLS: | |
| Attendance Accounting: | |
| Attendance Reporting | Yes |
| Teacher Certification and Misassignments | Yes |
| Kindergarten Continuance | Yes |
| Independent Study | N/A |
| Continuation Education | N/A |
| Instructional Time | Yes |
| Instructional Materials..... | Yes |
| Ratio of Administrative Employees to Teachers | Yes |
| Classroom Teacher Salaries | Yes |
| Early Retirement Incentive | N/A |
| GANN Limit Calculation | Yes |
| School Accountability Report Card | Yes |
| Juvenile Court Schools | N/A |
| Middle or Early College High Schools | N/A |
| K-3 Grade Span Adjustment | Yes |
| Transportation Maintenance of Effort | Yes |
| Apprenticeship: Related and Supplemental Instruction | N/A |
| Comprehensive School Safety Plan | Yes |
| District of Choice | N/A |
| SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS: | |
| California Clean Energy Jobs Act | Yes |
| After School Education and Safety Program: | |
| After School | Yes |
| Before School | Yes |
| General Requirements | Yes |
| Proper Expenditure of Education Protection Account Funds | Yes |
| Unduplicated Local Control Funding Formula Pupil Counts | Yes |
| Local Control and Accountability Plan | Yes |
| Independent Study-Course Based | N/A |
| CHARTER SCHOOLS: | |
| Attendance | N/A |
| Mode of Instruction | N/A |
| Nonclassroom-Based Instruction/Independent Study..... | N/A |
| Determination of Funding for Nonclassroom-Based Instruction | N/A |
| Annual Instructional Minutes - Classroom Based | N/A |
| Charter School Facility Grant Program | N/A |

The term "N/A" is used above to mean either the District did not offer the program during the current fiscal year or the program applies to a different type of local education agency.

Opinion on State Compliance

In our opinion, Vallecitos School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the statutory requirements listed in the schedule above for the year ended June 30, 2019.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion of the effectiveness of the entity's internal control or on compliance outside of the items tested as noted above. This report is an integral part of an audit performed in accordance with the *2018-19 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* prescribed in Title 5, *California Code of Regulations*, Section 19810 in considering the entity's compliance. Accordingly, this communication is not suitable for any other purpose.

William A. King & Co., LLP

El Cajon, California
December 14, 2019

Findings and Recommendations Section

VALLECITOS SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

One or more material weaknesses identified? Yes X No

One or more significant deficiencies identified that are not considered to be material weaknesses? Yes X None Reported

Noncompliance material to financial statements noted? Yes X No

2. Federal Awards

Internal control over major programs:

One or more material weaknesses identified? Yes X Not Applicable

One or more significant deficiencies identified that are not considered to be material weaknesses? Yes X Not Applicable

Type of auditor's report issued on compliance for major programs: Not Applicable

Any audit findings disclosed that are required to be reported in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200? Yes X Not Applicable

Identification of major programs:

| <u>CFDA Number(s)</u> | <u>Name of Federal Program or Cluster</u> |
|-----------------------|---|
| Not Applicable | Not Applicable |

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

Auditee qualified as low-risk auditee? Yes X Not Applicable

VALLECITOS SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019

3. State Awards

Any audit findings disclosed that are required to be reported in accordance with the state's Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting? Yes No

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

B. Financial Statement Findings

None

C. Federal Award Findings and Questioned Costs

Not Applicable

D. State Award Findings and Questioned Costs

None

VALLECITOS SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019

| Finding/Recommendation | Current Status | Management's Explanation If Not Implemented |
|---|--|--|
| <p data-bbox="151 375 415 436">Finding 2018-001 Instructional Materials</p> <p data-bbox="151 472 727 722">The District could not provide proof or documentation to support the public hearing for the sufficiency of instructional materials that meets all the required compliance requirements as stated in the audit guide. The individual responsible for the documentation had left the District and did not provide the support upon departure.</p> <p data-bbox="151 758 727 978">Implement procedures to ensure that proper support and documentation to support the public hearing for the sufficiency of instructional materials are on file and available for audit. Make sure all records for audit are accessible and not reliant on one sole individual for safekeeping.</p> | <p data-bbox="784 947 964 978">Implemented</p> | |