



Vallecitos School District

County of San Diego
Fallbrook, California

Audit Report

June 30, 2023



WILKINSON HADLEY
KING & CO. LLP
CPAs AND ADVISORS



Vallecitos School District

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June 30, 2023

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Independent Auditor's Report

To the Board of Education
Vallecitos School District

Report on the Audit of the Financial Statements

Qualified Opinions

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Vallecitos School District (the District) as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Summary of Opinions

Opinion Unit	Type of Opinion
Governmental Activities	Qualified
General Fund	Qualified
Child Development Fund	Qualified
Cafeteria Fund	Qualified
Capital Facilities Fund	Qualified
County School Facilities Fund	Qualified
Aggregate Remaining Fund Information	Qualified

Qualified Opinions

In our opinion, except for the possible effects of the matters discussed in the "Basis for Qualified Opinions" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Vallecitos School District as of June 30, 2023, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Qualified Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Matter Giving Rise to the Qualified Opinions

As discussed in the schedule of findings and questioned costs as item 2023-001, the District was unable to provide backup for the detail of accounts payable which agreed with the financial statements. Items provided showed that they were journal entries made to balance other accounts and not accounts payable.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other required supplementary information as identified in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB) 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'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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying supplementary information, identified in the table of contents, as required by the *2022-23 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed in Title 5, *California Code of Regulations, Section 19810* are presented for purposes of additional analysis and are not a required part of the financial statements.

Such 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. The 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 as identified in the table of contents, are fairly stated, in all material respects, in relation to the 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 March 14, 2024, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 the District's internal control over financial reporting and compliance.



El Cajon, California
March 14, 2024

VALLECITOS SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2023
(Unaudited)

Each year the Vallecitos School District (VSD) strives to provide high quality education in a safe atmosphere that nurtures the learning process for our students. Despite fiscal challenges, the District is committed to accomplishing its goals while maintaining sound financial practice and operational accountability.

The following section of the District's annual financial report represents a discussion and analysis of the District's fiscal performance during the year ending June 30, 2023, as required by the Governmental Accounting Standards Board (GASB), Statement No. 34. The purpose of this report is to present an overview of the District's financial data for the 2022-23 fiscal year. Note that this report should be read with the actual financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- District-wide, VSD's Net Position improved in 2022-23 by approximately \$1,450,040 (See Table 1). This improvement in net position occurred due to one time revenue funding increasing.
- The district-wide expenditures increased by \$1,066,659 or 29% over the previous year amount.
- General Fund revenues exceeded expenditures by \$3,163,824.

Overview of the Financial Statements

This annual report consists of the following parts – management's discussion and analysis (this section), the basic financial statements, required supplementary information, other supplementary information, and findings and recommendations. These statements are organized so the reader can understand the Vallecitos School District as an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The Basic Financial Statements

The first two statements are district-wide financial statements, the Statement of Net Position and the Statement of Activities. These statements provide information about the activities of the whole School District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's more significant funds with all other non-major funds presented in total in one column.

The financial statements also include notes that explain some of the supplementary information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements. A comparison of the District's general fund budget is included.

Reporting the School District as a Whole

Statement of Net Position and the Statement of Activities

These two statements provide information about the District as a whole using methods similar to those used by private-sector companies. The Statement of Net Position includes all the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources using the accrual basis of accounting. This basis of accounting takes in account all the current year's revenues and expenses regardless of when cash is received or paid. These statements report information on the district as a whole and its activities in a way that helps answer the question, "How did we do financially during 2022-2023?"

The change in net position is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Over time, the increases or decreases in the District's net position, as reported in the Statement of Activities, are one indicator of whether its financial health is improving or deteriorating. The relationship between revenues and expenses indicates the District's operating results. However, the District's goal is to provide services to our students, not to generate profits as commercial entities. One must consider many non-financial factors, such as the quality of education provided to assess the overall health of the District.

- Increases or decreases in the net position of the District over time are indications of whether its financial position is improving or deteriorating, respectively.
- Additional non-financial factors such as condition of school buildings and other facilities, and changes to the property tax base of the District need to be considered in assessing the overall health of the District.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. Some funds are required to be established by State law. However, the District establishes other funds to control and manage money for specific purposes.

Governmental Funds

Most of the District's activities are reported in governmental funds. The major governmental funds of the District are the General Fund. Governmental funds focus on how money flows into and out of the funds and the balances that remain at the end of the year. They 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 operations and services that help determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

FINANCIAL ANALYSIS OF THE GOVERNMENT WIDE STATEMENTS

The School District as a Whole

The District's net position was \$3,298,898 at June 30, 2023. Of this amount, unrestricted net position was (\$403,422), net investment in capital assets was \$1,532,704, and restricted net position was \$2,169,616. A Comparative analysis of government-wide statement of net position is presented in Table 1.

The District's net position increased \$1,697,177 this fiscal year (See Table 2). The District's expenses for instructional and pupil services represented 70% of total expenses. The administrative activities of the District accounted for just 8% of total costs. The remaining 18% was spent in the areas of plant services and other expenses. (See Figure 2)

(Table 1)
Comparative Statement of Net Position

	Governmental Activities	
	June 30, 2023	June 30, 2022
Assets		
Cash	\$ 2,726,898	\$ 1,964,546
Accounts receivable	1,319,973	413,788
Inventory	8,063	5,298
Capital assets, net	1,532,704	1,468,870
Total Assets	\$ 5,587,638	\$ 3,852,502
Deferred Outflows of Resources		
Deferred outflows of resources - pensions	\$ 869,881	\$ 723,619
Total Deferred Outflows of Resources	\$ 869,881	\$ 723,619
Liabilities		
Accounts payable and other current liabilities	387,354	82,419
Unearned revenue	-	83,673
Long-term liabilities	2,480,609	1,624,937
Total Liabilities	2,867,963	1,791,029
Deferred Inflows of Resources		
Deferred inflows of resources - pensions	\$ 290,658	1,183,371
Total Deferred Inflows of Resources	\$ 290,658	\$ 1,183,371
Net Position		
Net investment in capital assets	1,532,704	1,468,870
Restricted	2,169,616	716,298
Unrestricted	(403,422)	(583,447)
Total Net Position	\$ 3,298,898	\$ 1,601,721

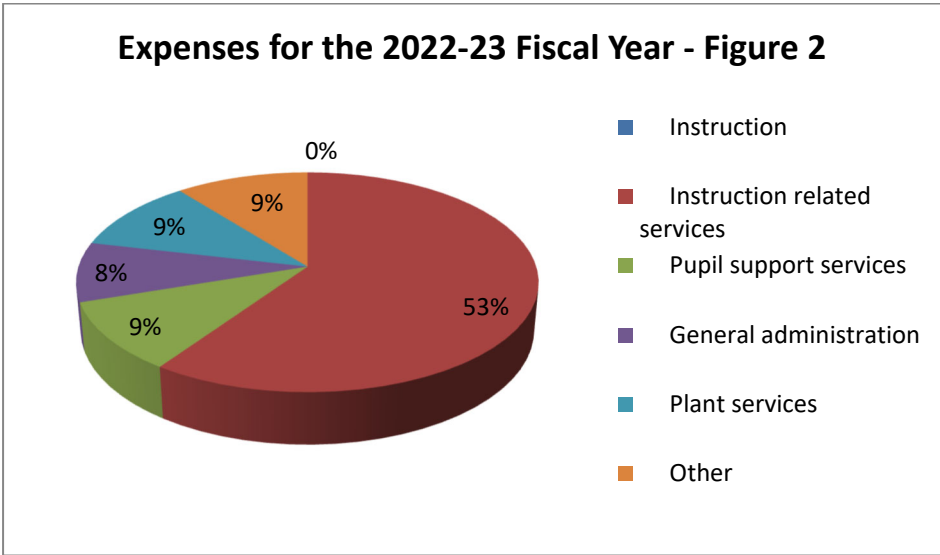
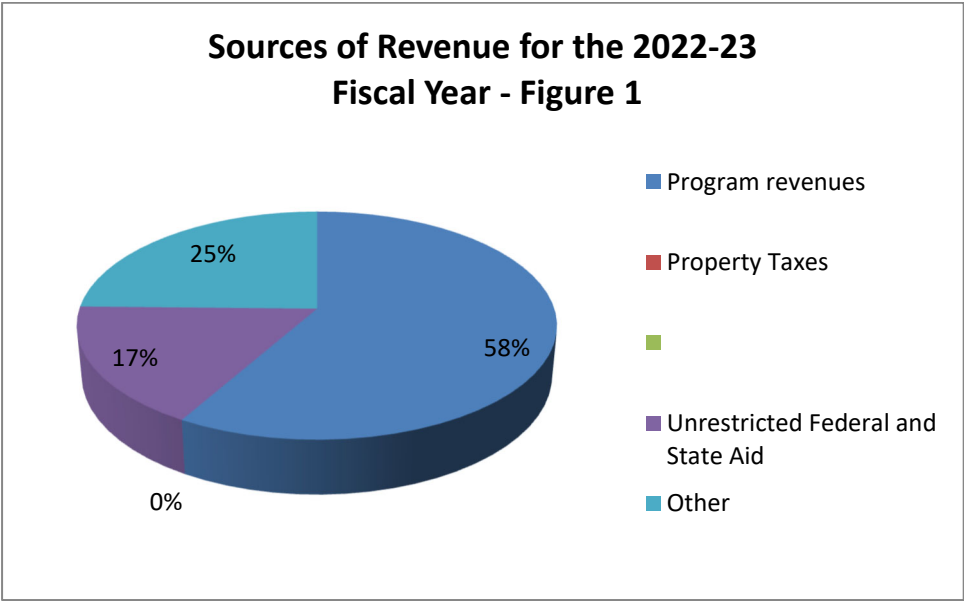
(Table 2)
Comparative Statement of Change in Net Position

	Governmental Activities	
	Year Ended June 30, 2023	Year Ended June 30, 2022
Revenues		
Program revenues		
Charges for services	365,073	236,095
Operating grants and contributions	3,307,814	1,245,827
Capital grants and contributions	5,341	(6,388)
Taxes levied for general purposes	1,075,607	1,323,641
Federal and state aid not restricted to specific purposes	1,456,438	1,380,388
Interest and investment earnings	28,775	(33,724)
Miscellaneous	65,841	(38,935)
Total Revenues	6,304,889	4,106,904
Expenses		
Instruction	2,487,161	2,159,313
Instruction related services	426,682	329,255
Pupil support services	365,295	287,672
General administration	446,147	417,640
Plant services	445,348	527,093
Other	560,251	(56,748)
Total Expenses	4,730,884	3,664,225
Increase (Decrease) in Net Position	1,574,005	442,679
Net Position - Beginning Balance	1,601,721	1,159,042
Adjustment to Beginning Net Position**	123,173	-
Net Position - Ending Balance	\$ 3,298,899	\$ 1,601,721

**2021-22 beginning balance updated for changes in capital assets

GOVERNMENTAL ACTIVITIES

As reported in the Statement of Activities, the cost of all of the District's governmental activities this year was \$4,730,884. The amount that our local taxpayers financed for these activities through property taxes was \$1,075,607. Federal and State aid not restricted to specific purposes totaled \$1,456,438. Operating grants and contributions revenue was \$3,313,155. Charges for services, and unrestricted federal and state aid provided an additional \$459,689 in revenue (See Figure 1).



FINANCIAL ANALYSIS OF THE FUND STATEMENTS

The fund financial statements focus on individual parts of the District’s operations in more detail than the government-wide statements. The District’s individual fund statements provide information on inflows and outflows and balances of spendable resources. The District’s Governmental Funds reported a combined fund balance of \$3,667,580, an increase of \$1,450,040 from the previous fiscal year’s combined ending balance of \$2,217,540.

General Fund Budgetary Highlights

Over the course of the year, the District revised the annual operating budget regularly. The significant budget adjustments fell into the following categories:

- Budget revisions to the adopted budget required after approval of the State budget.
- Budget revisions to update revenues to actual enrollment information and to update expenditures for staffing adjustments related to actual enrollments.
- Other budget revisions are routine in nature, including adjustments to categorical revenues and expenditures based on final awards, and adjustments between expenditure categories for school and department budgets.

The final revised budget for the General Fund reflected a net increase to the ending balance of \$1,389,856.

The District ended the year with a \$1,390,959 increase to the general fund ending balance. The State recommends available reserves of 4% of total general fund expenditures and other financing uses.

(Table 3)
Changes in District Fund Balances
June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>	<u>Net \$ Change</u>	<u>Net % Change</u>
General Fund	\$ 3,163,824	\$ 1,772,865	\$ 1,390,959	78.5%
Child Development Fund	43,936	35,604	8,332	23.4%
Cafeteria Fund	75,955	44,657	31,298	70.1%
Capital Facilities Fund	21,876	7,766	14,110	181.7%
County School Facilities Fund	<u>\$ 361,989</u>	<u>\$ 356,648</u>	<u>\$ 5,341</u>	<u>1.5%</u>
Total Fund Balance	<u>\$ 3,667,580</u>	<u>\$ 2,217,540</u>	<u>\$ 1,450,040</u>	<u>65.4%</u>

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The District has a broad range of capital assets, including school buildings, administrative buildings, site improvements, vehicles, and equipment. Table 3 demonstrates a comparative Schedule of Capital Assets and Lease Assets. The District currently does not have any lease assets to report..

(Table 4)
Comparative Schedule of Capital Assets and Lease Assets
June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>	<u>Net \$ Change</u>	<u>Net % Change</u>
Land	\$ 6,161	\$ 6,161	\$ -	0.0%
Land Improvements	851,527	759,726	91,801	12.1%
Buildings & Improvements	1,137,834	1,535,934	(398,100)	-25.9%
Equipment	389,330	478,694	(89,364)	-18.7%
Less Accumulated Depreciation for				
Land Improvements	(154,301)	(141,635)	(12,666)	8.9%
Buildings & Improvements	(553,155)	(889,773)	336,618	-37.8%
Equipment	(144,692)	(280,237)	135,545	-48.4%
Total	<u>\$ 1,532,704</u>	<u>\$ 1,468,870</u>	<u>\$ 63,834</u>	<u>4.3%</u>

Long-Term Obligations

At June 30, 2023 the District only had 2,480,609 in Net Pension Liability in long-term obligations outstanding. This is an increase of \$855,672 over the previous year's Net Pension Liability of \$1,624,937.

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time that this analysis was written, the District recognized the following areas of concern that could significantly impact the future of the District's financial health:

- Enrollment and Average Daily Attendance (ADA) need to be continually monitored.
- Continued increases in employee pension costs (STRS and PERS) will continue to erode at future funding increases. This must be offset by reductions in other areas in the budget.
- Implementation of new GASB pronouncements requires diligence and understanding to ensure proper recording.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Manager at Vallecitos School District, 5211 Fifth St., Rainbow, CA 92028.

Basic Financial Statements

Vallecitos School District

Statement of Net Position

June 30, 2023

	<u>Governmental Activities</u>
Assets	
Cash	\$ 2,726,898
Accounts Receivable	1,319,973
Inventory	8,063
Capital Assets:	
Land	6,161
Land Improvements	851,527
Buildings & Improvements	1,137,834
Equipment	389,330
Less Accumulated Depreciation	<u>(852,148)</u>
Total Assets	<u>5,587,638</u>
Deferred Outflows of Resources	<u>869,881</u>
Liabilities	
Accounts Payable and Other Current Liabilities	387,354
Long-Term Liabilities:	
Due Within One Year	-
Due In More Than One Year	<u>2,480,609</u>
Total Liabilities	<u>2,867,963</u>
Deferred Inflows of Resources	<u>290,658</u>
Net Position	
Net Investment in Capital Assets	1,532,704
Restricted For:	
Capital Projects	383,865
Educational Programs	1,636,310
Other Purposes (Expendable)	131,378
Other Purposes (Nonexpendable)	18,063
Unrestricted	<u>(403,422)</u>
Total Net Position	<u><u>\$ 3,298,898</u></u>

The accompanying notes to the financial statements are an integral part of this statement.

Vallecitos School District

Statement of Activities

For the Year Ended June 30, 2023

Functions	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Position
Governmental Activities					Governmental Activities
Instruction	\$ 2,487,161	\$ -	\$ 1,677,384	\$ 5,341	\$ (804,436)
Instruction-Related Services:					
Instructional Supervision and Administration	8,580	-	7,417	-	(1,163)
School Site Administration	418,102	-	386,696	-	(31,406)
Pupil Services:					
Home-to-School Transportation	3,227	-	-	-	(3,227)
Food Services	210,866	660	373,497	-	163,291
All Other Pupil Services	151,202	-	387,880	-	236,678
General Administration:					
Centralized Data Processing	12,077	-	-	-	(12,077)
All Other General Administration	434,070	-	196,220	-	(237,850)
Plant Services	445,348	28,795	42,920	-	(373,633)
Ancillary Services	560,251	335,618	235,800		11,167
Total Governmental Activities	<u>\$ 4,730,884</u>	<u>\$ 365,073</u>	<u>\$ 3,307,814</u>	<u>\$ 5,341</u>	<u>(1,052,656)</u>
General Revenues					
Taxes and Subventions:					
Property Taxes, Levied for General Purposes					
					\$ 1,075,607
Federal and State Aid Not Restricted for Specific Purposes					
					1,456,438
Interest and Investment Earnings					
					28,775
Miscellaneous					
					65,841
Total General Revenues					
					<u>2,626,661</u>
Change in Net Position					
					1,574,005
Net Position - Beginning of Year - See Note M					
					<u>1,724,893</u>
Net Position - Ending					
					<u>\$ 3,298,898</u>

The accompanying notes to the financial statements are an integral part of this statement.

Vallecitos School District

Balance Sheet – Governmental Funds

June 30, 2023

	General Fund	Nonmajor Governmental Funds	Total
Assets			
Cash and Cash Equivalents	\$ 2,203,756	\$ 523,142	\$ 2,726,898
Accounts Receivable	1,289,155	30,818	1,319,973
Due from Other Funds	-	1,799	1,799
Stores Inventories	-	8,063	8,063
Total Assets	<u>\$ 3,492,911</u>	<u>\$ 563,822</u>	<u>\$ 4,056,733</u>
Liabilities and Fund Balance:			
Liabilities:			
Accounts Payable	\$ 327,288	\$ 60,066	\$ 387,354
Due to Other Funds	1,799	-	1,799
Total Liabilities	<u>329,087</u>	<u>60,066</u>	<u>389,153</u>
Fund Balance:			
Nonspendable	10,000	8,063	18,063
Restricted	1,686,156	495,693	2,181,849
Unassigned	1,467,668	-	1,467,668
Total Fund Balance	<u>3,163,824</u>	<u>503,756</u>	<u>3,667,580</u>
Total Liabilities and Fund Balances	<u>\$ 3,492,911</u>	<u>\$ 563,822</u>	<u>\$ 4,056,733</u>

The accompanying notes to the financial statements 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, 2023

Total fund balances governmental funds: \$ 3,667,580

Amounts reported for assets, deferred outflows of resources, liabilities, and deferred inflows of resources 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	2,384,852	
Accumulated depreciation	<u>(852,148)</u>	
Net		1,532,704

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 consist of:

Net pension liability	<u>2,480,609</u>	
Total		(2,480,609)

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 relating to pensions	869,881	
Deferred inflows of resources relating to pensions	<u>(290,658)</u>	
Net		<u>579,223</u>

Total net position governmental activities: \$ 3,298,898

The accompanying notes to the financial statements are an integral part of this statement.

Vallecitos School District

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds For the Year Ended June 30, 2023

	General Fund	Nonmajor Governmental Funds	Total
Revenues			
State Apportionment	\$ 1,355,875	\$ -	\$ 1,355,875
Education Protection Account Funds	58,601	-	58,601
Property Taxes	1,075,607	-	1,075,607
Federal Revenue	402,807	223,672	626,479
Other State Revenue	2,249,518	21,893	2,271,411
Interest	48,186	7,315	55,501
FMV Adjustment	(21,882)	(4,844)	(26,726)
Other Local Revenue	597,875	14,882	612,757
Total Revenues	<u>\$ 5,766,587</u>	<u>\$ 262,918</u>	<u>\$ 6,029,505</u>
Expenditures			
Current Expenditures:			
Instruction	2,389,407	15,460	2,404,867
Instruction - Related Services	414,592	190,176	604,768
Pupil Services	148,104	-	148,104
Ancillary Services	560,244	-	560,244
General Administration	423,252	-	423,252
Plant Services	386,852	-	386,852
Capital Outlay	51,378	-	51,378
Total Expenditures	<u>4,373,829</u>	<u>205,636</u>	<u>4,579,465</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>1,392,758</u>	<u>57,282</u>	<u>1,450,040</u>
Other Financing Sources (Uses):			
Transfers In	-	1,799	1,799
Transfers Out	(1,799)	-	(1,799)
Total Other Financing Sources (Uses)	<u>(1,799)</u>	<u>1,799</u>	<u>-</u>
Net Change in Fund Balance	1,390,959	59,081	1,450,040
Fund Balance, Beginning of Year	<u>1,772,865</u>	<u>444,675</u>	<u>2,217,540</u>
Fund Balance, End of Year	<u>\$ 3,163,824</u>	<u>\$ 503,756</u>	<u>\$ 3,667,580</u>

The accompanying notes to the financial statements 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, 2023

Total change in fund balances, governmental funds: \$ 1,450,040

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

Capital outlay: In governmental funds, the costs 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	51,378	
Depreciation expense	<u>(110,716)</u>	
	Net	(59,338)

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

183,303

Change in net position of governmental activities: \$ 1,574,005

Vallecitos School District

Notes to the Financial Statements

For the Year Ended June 30, 2023

A. Summary of Significant Accounting Policies

Vallecitos School District (District) accounts for its financial transactions in accordance with the policies and procedures of the California Department of Education's *California School Accounting Manual*. The accounting policies of the District conform to accounting principles generally accepted in the United States of America (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 of Education form of government and provides educational services to grades K-8 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, capital facilities funds, debt service funds, 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.

Based on the criteria in GASB Statements 14 as amended by Statements 39 and 61, the District has no component units. Additionally, the District is not a component unit of any other reporting entity as defined by the GASB statements.

3. Basis of Presentation

Government-Wide Statements. The statement of net position and the statement of activities display information about the primary government (the District). These statements include the financial activities of the overall government. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenue, and other non-exchange transactions.

The statement of activities presents a comparison between direct expenses and program revenue 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. Indirect expense allocations that have been made in the funds have been reserved for the statement of activities. 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 of 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 general revenues of the District.

Vallecitos School District

Notes to the Financial Statements, Continued

June 30, 2023

Fund Financial Statements. The fund financial statements provide information about the District's funds. 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 non-major funds.

Governmental funds are used to account for activities that are governmental in nature. Governmental activities are typically tax-supported and include education of pupils, operation of food service programs, construction and maintenance of school facilities, and repayment of long-term debt.

Major Governmental Funds

The District reports the following major governmental funds:

General Fund: The General Fund is the primary operating fund of the District. It is used to account for all activities except those that are required to be accounted for in another fund.

Nonmajor Governmental Funds

Special Revenue Funds: Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects. The District maintains the following nonmajor special revenue funds:

Child Development Fund: This fund is used to account separately for federal, state, and local revenues to operate child development programs.

Cafeteria Special Revenue Fund: This fund is used to account separately for federal, state, and local resources to operate the food service program (*Education Code §38091 through §38093*). The Cafeteria Special Revenue Fund shall be used only for those expenditures authorized by the governing board as necessary for the operation of the District's food service program (*Education Code §38091 and §38100*).

Capital Projects Funds: Capital projects funds are established to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds). The District maintains the following nonmajor capital projects funds:

Capital Facilities Fund: The Capital Facilities Fund is used primarily to account separately for moneys received from fees levied on developers or other agencies as a condition of approving a development (*Education Code §17620 through §17626*). The authority for these levies may be county or city ordinances (*Government Code §65970 through §65981*) or private agreements between the District and the developer. All funds, including interest earned, are restricted to the purposes specified in *Government Code §65970 through §65981* or *Government Code §65995*, or items specified in agreements with the developer (*Government Code §66006*).

Vallecitos School District

Notes to the Financial Statements, Continued

June 30, 2023

County School Facilities Fund: This fund is established pursuant to *Education Code §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). The fund is used primarily to account for new school facility construction, modernization projects, and facility hardship grants as provided in the Leroy F. Green School Facilities Act of 1998 (*Education Code §17070.10 et seq.*).

4. Basis of Accounting – Measurement Focus

Government-Wide Financial Statements. The government-wide financial statements are reported using the economic resources measurement focus. The government-wide financial statements 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 are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements. The 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 from 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.

5. 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 or at year end, whichever is sooner.

Vallecitos School District

Notes to the Financial Statements, Continued

June 30, 2023

6. Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. By state law, the District's governing board must adopt a final budget no later than July 1st. A public hearing must be conducted to receive comments prior to adoption. The District's governing board has satisfied these requirements.

These budgets are revised by the District's governing board and district superintendent during the year to give consideration to unanticipated income and expenditures.

Formal budgetary integration was used as a management control device during the year for all budgeted funds. The District employs budget control by minor object and by individual appropriation accounts.

7. Revenues and Expenses

a. Revenues – Exchange and Non-Exchange

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 year or 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 to not 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, property taxes, interest, certain grants, and other local sources.

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

b. 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 90 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 government-wide financial statements.

Vallecitos School District

Notes to the Financial Statements, Continued

June 30, 2023

8. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, Fund Balance and Net Position

a. Deposits and Investments

Cash balances held in banks and in revolving funds are insured to \$250,000 by the Federal Depository Insurance Corporation (FDIC). All cash held by the financial institutions is fully insured or collateralized. For purposes of the statement of cash flows, highly liquid investments are considered to be cash equivalents if they have a maturity of three months or less when purchased.

In accordance with Education Code §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 §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 San Diego 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 using the first-in/first-out (FIFO) method and consist of expendable supplies held for consumption. Reported inventories are equally offset by a non-spendable fund balance designation, which indicates that these amounts are not “available for appropriation and expenditure” even though they are a component of net current assets.

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 expenditures during the benefiting period.

c. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital 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.

Vallecitos School District

Notes to the Financial Statements, Continued

June 30, 2023

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

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings & Improvements	20 - 50 Years
Land Improvements	10 - 25 Years
Equipment	5 - 15 Years

d. Lease Assets & Lease Liabilities

A lease is defined as a contract that conveys control of the right to use another entity’s nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. Examples of nonfinancial assets include buildings, land, vehicles and equipment. In accordance with GASB Statement 87, the District records lease assets and lease liabilities with a capitalization threshold of \$5,000. Lease assets are amortized over the shorter of the useful life of the underlying asset (as defined in capital assets policy) or the lease term. Lease liabilities are reduced as principal payments on the lease are made.

e. Subscription Assets & Subscription Liabilities

A subscription based information technology arrangement (SBITA) is a contract that conveys control of the right to use another party’s information technology software, alone or in combination with tangible capital assets, as specified in the contract for a period of time in an exchange or exchange-like transaction. SBITAs result in a subscription asset and subscription liability on the date of inception in accordance with GASB Statement 96 which are recorded at present value using an imputed interest rate based on the best available borrowing rate for the District in the year of inception. The District has established a capitalization threshold for subscription assets and liabilities of \$5,000. The subscription assets are amortized over the subscription term. The subscription liabilities are reduced as principal payments on the agreements are paid.

f. Compensated Absences

Accumulated unpaid employee vacation benefits are recognized as liabilities of the District. The balance of the liabilities is recognized in the government-wide financial statements at year end.

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

g. 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 occurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for unearned revenue is removed from the combined balance sheet and revenue is recognized.

Vallecitos School District

Notes to the Financial Statements, Continued

June 30, 2023

h. Interfund Activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers in and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net position.

i. Fund Balances – Governmental Funds

Fund balances of the governmental funds are classified as follows:

Nonspendable Fund Balance represents amounts that cannot be spent because they are either not spendable form (such as inventory or prepaid items) or legally required to remain intact (such as revolving cash accounts or principal of a permanent fund).

Restricted Fund Balance represents amounts that are subject to externally imposed and legally enforceable constraints. Such constraints may be imposed by creditors, grantors, contributors, or laws or regulations, or may be imposed by law through constitutional provisions or enabling legislation.

Committed Fund Balance represents amounts that can only be used for a specific purpose because of a formal action by the District's governing board. Committed amounts cannot be used for any other purpose unless the governing board removes those constraints by taking the same type of formal action. Committed fund balance amounts may be used for other purposes with appropriate due process by the governing board. Commitments are typically done through adoption and amendment of the budget or resolution. Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

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 governing board or by an official or body to which the governing board delegates the authority. 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 convey 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.

Vallecitos School District

Notes to the Financial Statements, Continued

June 30, 2023

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.

j. Minimum Fund Balance Policy

The District maintains a minimum reserve, within the general fund, of at least 5%. The minimum reserve shall apply towards the established minimum Reserve for Economic Uncertainties or an amount that meets or exceeds the requirements by law. The District is committed to maintaining a prudent level of financial resources to protect against the need to reduce service levels because of temporary revenue shortfalls or unpredicted expenditures. Because amounts in the nonspendable, restricted, committed, and assigned categories are subject varying constraints in use, the Reserve for Economic Uncertainties consists of balances that are otherwise unassigned.

k. GASB 54 Fund Presentation

GASB Statement No. 54 defines a special revenue fund as a fund that has a special revenue source that is either 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. The Special Reserve Fund for Other Than Capital Outlay (Fund 17) does not have continuing revenue sources that are either restricted or committed in nature. As such this fund does not meet the definition of special revenue funds under the provisions of GASB Statement No. 54. The fund has been combined with the general fund for reporting purposes.

l. 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.

m. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources relating to pension, deferred inflows of resources relating to pension, 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 fiduciary net positions have been determined on the same basis as they are reported by the CalPERS Financial Office and CalSTRS Financial Office. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

Vallecitos School District

Notes to the Financial Statements, Continued

June 30, 2023

Generally accepted accounting principles require that the reported results must pertain to liability and asset information within certain timeframes. For this report, the following time frames are used:

Valuation Date	June 30, 2021
Measurement Date	June 30, 2022
Measurement Period	July 1, 2021 to June 30, 2022

9. Property Taxes

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 Auditor-Controller bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

10. Use of 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.

11. 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 to an asset or liability.

Vallecitos School District

Notes to the Financial Statements, Continued

June 30, 2023

12. New Accounting Pronouncements

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, 2023. Those newly implemented pronouncements are as follows:

Description	Date Issued
GASB Statement 91, Conduit Debt Obligations	05/2019
GASB Statement 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements	03/2020
GASB Statement 96, Subscription Based Information Technology Arrangements	05/2020
GASB Statement 99, Omnibus 2022 (Portions related to leases, PPPs, and SBITAs)	04/2022
GASB Implementation Guide 2021-1, Implementation Guidance Update - 2021 (Except Question 5.1)	05/2021

Implementation of these standards did not result in any changes to financial accounting or reporting for the District.

- Subscription based information technology arrangements (SBITAs) were previously accounted for as a current expense in the years the subscription payments were made. Under the provisions of GASB Statement No. 96 long-term subscriptions are recorded on the government wide statement of net position as subscription assets which are amortized over the life of the agreement, and subscription liabilities which are reduced over the life of the agreement by principal payments.

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:

Violation	Action Taken
None Reported	Not Applicable

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

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

Fund Name	Deficit Amount	Remarks
None	Not Applicable	Not Applicable

Vallecitos School District

Notes to the Financial Statements, Continued

June 30, 2023

C. Fair Value Measurements

The District’s investments at June 30, 2023, categorized within the fair value hierarchy established by generally accepted accounting principles, were as follows:

	Amount	Fair Value Measurement Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
External investment pools measured at fair value				
San Diego County Treasury	\$ 2,710,974	\$ -	\$ 2,710,974	\$ -
Total investments by fair value level	\$ 2,710,974	\$ -	\$ 2,710,974	\$ -

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 §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.

D. Cash and Investments

As of June 30, 2023, the District held the following cash and cash equivalents:

	General Fund	Nonmajor Governmental Funds	Total
Cash In County Treasury	\$ 2,249,179	\$ 537,810	\$ 2,786,989
Fair Market Value Adjustment	(61,347)	(14,668)	(76,015)
Cash In Banks and Revolving Fund	15,924	-	15,924
Total Cash and Cash Equivalents	\$ 2,203,756	\$ 523,142	\$ 2,726,898

1. Cash in County Treasury

In accordance with Education Code §41001, the District maintains substantially all of its cash in the San Diego County Treasury as part of the common investment pool (\$2,786,989 as of June 30, 2023). The fair value of the District’s portion of this pool as of that date, as provided by the pool sponsor, was \$2,710,974. Assumptions made in determining the fair value of the pooled investment portfolios are available from the County Treasurer.

Vallecitos School District

Notes to the Financial Statements, Continued

June 30, 2023

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

Cash balances on hand and in banks (\$5,924 as of June 30, 2023) and in revolving fund (\$10,000 as of June 30, 2023) are insured up to \$250,000 by the Federal Depository Insurance Corporation (FDIC).

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.

<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	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

Vallecitos School District

Notes to the Financial Statements, Continued

June 30, 2023

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 treasury is restricted by Government Code §53635 pursuant to §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 risk.

At June 30, 2023, 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	\$ 2,710,974

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.

At June 30, 2023, the District's bank balances, including revolving cash, did not exceed FDIC insurance limitations and as such were not exposed to custodial credit risk.

Vallecitos School District

Notes to the Financial Statements, Continued

June 30, 2023

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.

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 maintains pooled investments with the San Diego County Treasury with a fair value of \$2,710,974. The average weighted maturity for this pool was 438 days at June 30, 2023.

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 a 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.

Vallecitos School District

Notes to the Financial Statements, Continued

June 30, 2023

E. Accounts Receivable

There are no significant receivables which are not scheduled for collection within one year of year end. Accounts receivable balances as of June 30, 2023, consisted of:

	Major Governmental Funds		Total
	General Fund	Nonmajor Governmental Funds	
Federal Government:			
Special Education	\$ 33,626	\$ -	\$ 33,626
ESSER	92,736	-	92,736
Child Nutrition	-	23,017	23,017
State Government:			
Lottery	10,620	-	10,620
Education Protection Account	8,315	-	8,315
Special Education	6,178	-	6,178
Community Schools Partnership	962,500	-	962,500
Child Nutrition	-	7,281	7,281
Arts & Music	45,916	-	45,916
Local Sources			
Interest	12,060	520	12,580
After School Program	14,473	-	14,473
Other Local Sources	102,731	-	102,731
Total Accounts Receivable	<u>\$ 1,289,155</u>	<u>\$ 30,818</u>	<u>\$ 1,319,973</u>

F. Capital Assets

Capital asset activity for the year ended June 30, 2023, was as follows:

Governmental activities:	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets not being depreciated:				
Land	\$ 6,161	\$ -	\$ -	\$ 6,161
Total capital assets not being depreciated	<u>6,161</u>	<u>-</u>	<u>-</u>	<u>6,161</u>
Capital assets being depreciated:				
Land improvements	827,114	24,413	-	851,527
Buildings and improvements	1,128,534	9,300	-	1,137,834
Equipment	371,665	17,665	-	389,330
Total capital assets being depreciated	<u>2,327,313</u>	<u>51,378</u>	<u>-</u>	<u>2,378,691</u>
Less accumulated depreciation for:				
Land improvements	(120,456)	(33,845)	-	(154,301)
Buildings and improvements	(499,295)	(53,860)	-	(553,155)
Equipment	(121,681)	(23,011)	-	(144,692)
Total accumulated depreciation	<u>(741,432)</u>	<u>(110,716)</u>	<u>-</u>	<u>(852,148)</u>
Total capital assets being depreciated, net	<u>1,585,881</u>	<u>(59,338)</u>	<u>-</u>	<u>1,526,543</u>
Governmental activities capital assets, net	<u>\$ 1,592,042</u>	<u>\$ (59,338)</u>	<u>\$ -</u>	<u>\$ 1,532,704</u>

Vallecitos School District

Notes to the Financial Statements, Continued

June 30, 2023

Depreciation was charged to functions as follows:

Instruction	\$	20,757
Pupil Services		24,819
General Administration		14,925
Plant Services		<u>50,215</u>
Total	\$	<u><u>110,716</u></u>

G. Accounts Payable

Accounts payable recorded contain amounts that should not be included. A detail is unable to be included here.

H. Interfund Activities

Interfund activities included Due To and From Other Funds and Interfund Transfers, as of June 30, 2023 they consisted of:

<u>Interfund Receivable (Due From Other Funds)</u>	<u>Interfund Payable (Due To Other Funds)</u>	<u>Amount</u>	<u>Purpose</u>
Nonmajor Funds	General Fund	<u>\$ 1,799</u>	Reimbursement of expenses
<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>	<u>Purpose</u>
Nonmajor Funds	General Fund	<u>\$ 1,799</u>	Reimbursement of expenses

I. 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 financing sources. The District did not issue any short-term debt during the fiscal year ended June 30, 2023.

Vallecitos School District

Notes to the Financial Statements, Continued

June 30, 2023

J. Fund Balance Classifications of the Governmental Funds

Ending fund balance classifications of the governmental funds for the year ended June 30, 2023, consisted of:

	General Fund	Nonmajor Governmental Funds	Total
Nonspendable Fund Balance			
Revolving Cash	\$ 10,000	\$ -	\$ 10,000
Inventory	-	8,063	8,063
Total Nonspendable Fund Balance	<u>10,000</u>	<u>8,063</u>	<u>18,063</u>
Restricted Fund Balance			
Capital Projects	-	383,865	383,865
Educational Programs	1,554,778	43,936	1,598,714
Associated Student Body	5,924	-	5,924
Child Nutrition	124,608	67,892	192,500
Other Purposes	846	-	846
Total Restricted Fund Balance	<u>1,686,156</u>	<u>495,693</u>	<u>2,181,849</u>
Unassigned Fund Balance			
Reserve Economic Uncertainties	1,467,668	-	1,467,668
Total Unassigned Fund Balance	<u>1,467,668</u>	<u>-</u>	<u>1,467,668</u>
Total Fund Balance	<u>\$ 3,163,824</u>	<u>\$ 503,756</u>	<u>\$ 3,667,580</u>

Vallecitos School District

Notes to the Financial Statements, Continued

June 30, 2023

K. 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, 2023, are as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<u>Governmental Activities:</u>					
Net Pension Liability*	\$ 1,624,937	\$ 855,672	\$ -	\$ 2,480,609	\$ -
Total Governmental Activities	<u>\$ 1,624,937</u>	<u>\$ 855,672</u>	<u>\$ -</u>	<u>\$ 2,480,609</u>	<u>\$ -</u>

*Other long-term liabilities

- Payments for pension contributions are made from the general fund.

2. Net Pension Liability

The District's beginning net pension liability was \$1,624,937 and increased by \$855,672 during the year ended June 30, 2023 for an ending net pension liability of \$2,480,609. See Note L for additional information regarding the net pension liability.

Vallecitos School District

Notes to the Financial Statements, Continued

June 30, 2023

L. Pension Plans

1. General Information about the Pension Plans

a. Plan Descriptions

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

b. Benefits Paid

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

The Plan's provisions and benefits in effect at June 30, 2023 are summarized as follows:

	CalSTRS	
	Before Jan. 1, 2013	After Jan. 1, 2013
Hire Date		
Benefit Formula	2% at 60	2% at 62**
Benefit Vesting Schedule	5 Years	5 Years
Benefit Payments	Monthly for life	Monthly for life
Retirement Age	55-60	55-62
Monthly Benefits as a % of Eligible Compensation	1.1 - 2.4%	1.0 - 2.4%*
Required Employee Contribution Rates (2022-23)	10.250%	10.205%
Required Employer Contribution Rates (2022-23)	19.100%	19.100%
Required State Contribution Rates (2022-23)	10.828%	10.828%

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

**The contribution rate for CalSTRS 2% at 62 members is based, in part, on the normal cost of benefits and may increase or decrease in future years.

Vallecitos School District

Notes to the Financial Statements, Continued

June 30, 2023

	CalPERS	
	Before Jan. 1, 2013	After Jan. 1, 2013
Hire Date		
Benefit Formula	2% at 55	2% at 62**
Benefit Vesting Schedule	5 Years	5 Years
Benefit Payments	Monthly for life	Monthly for life
Retirement Age	50-62	52-67
Monthly Benefits as a % of Eligible Compensation	1.1 - 2.5%	1.0 - 2.5%*
Required Employee Contribution Rates (2022-23)	7.000%	8.000%
Required State Contribution Rates (2022-23)	25.370%	25.370%

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

**The rate imposed on CalPERS 2% at 62 members is based on the normal cost of benefits.

c. Contributions

CalSTRS

For the fiscal year ended June 30, 2023, California Education Code §22950 requires members to contribute monthly to the system 10.205% (if hired on or after January 1, 2013) or 10.25% (if hired before January 1, 2013) of the creditable compensation upon which members' contributions under this part are based. In addition, the employer required rates established by the CalSTRS board have been established at 19.10% of creditable compensation for the fiscal year ended June 30, 2023. The CalSTRS Board has the authority to increase or decrease percentages paid specific to reflect the contribution required to eliminate by June 30, 2046, the remaining unfunded actuarial obligation with respect to service credited to members before July 1, 2014, as determined by the Board based upon a recommendation from its actuary. Those adjustments are limited to 1% annually, not to exceed 20.25% of creditable compensation.

CalPERS

California Public Employees' Retirement Law §20814(c) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on July 1 following notice of a change in the rate. The CalPERS Board retains the authority to amend contribution rates. The total plan contributions are determined through CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of the employees. For the fiscal year ended June 30, 2023, the employee contribution rate was 7.00% for employees hired prior to January 1, 2013 and 8.00% for employees hired on or after January 1, 2013, and the employer contribution rate was 25.37% of covered payroll.

Vallecitos School District

Notes to the Financial Statements, Continued

June 30, 2023

On Behalf Payments

Consistent with California Education Code §22955.1, the State of California makes contributions to CalSTRS on behalf of employees working for the District. For the fiscal year ended June 30, 2023 the State contributed 10.828% of salaries creditable to CalSTRS. Consistent with the requirements of generally accepted accounting principles, the District has recorded these contributions as revenue and expense in the fund financial statements (current financial resources measurement focus). The government-wide financial statements have recorded revenue and expense for pension expense paid on behalf of the District (economic resources measurement focus). Contributions reported for on behalf payments are based on the District's proportionate share of the States contribution for the fiscal year. Contributions made by the state on behalf of the District and the State's pension expense associated with District employees for the past three fiscal years are as follows:

CalSTRS			
Year Ended June 30,	On Behalf Contribution Rate	On Behalf Contribution Amount	On Behalf Pension Expense
2021	10.328%	124,563	92,167
2022	10.828%	129,741	21,005
2023	10.828%	117,725	393,110

The State contributed an additional \$297 Million to CalSTRS during the 2020-21 fiscal year as a continuing settlement associated with SB90.

d. Contributions Recognized

For the fiscal year ended June 30, 2023 (measurement period June 30, 2022), the contributions recognized for each plan were:

Governmental Fund Financial Statements (Current Financial Resources Measurement Focus)			
	CaSTRS	CaPERS	Total
Contributions - Employer	\$ 283,978	\$ 145,106	\$ 429,084
Contributions - State On Behalf Payments	117,725	-	117,725
Total Governmental Funds	<u>\$ 401,703</u>	<u>\$ 145,106</u>	<u>\$ 546,809</u>

Government-Wide Financial Statements (Economic Resources Measurement Focus)			
	CaSTRS	CaPERS	Total
Contributions - Employer	\$ 206,951	\$ 118,812	\$ 325,763
Contributions - State On Behalf Payments	129,741	-	129,741
Total Government-Wide	<u>\$ 336,692</u>	<u>\$ 118,812</u>	<u>\$ 455,504</u>

Vallecitos School District

Notes to the Financial Statements, Continued

June 30, 2023

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

As of June 30, 2022 (measurement date) the District reported net pension liabilities for its proportionate share of the net pension liability of each plan as follows:

	Proportionate Share of the Net Pension Liability		
	CalSTRS	CalPERS	Total
Governmental Activities	\$ 1,331,346	\$ 1,149,263	\$ 2,480,609

The District's net pension liability for each Plan is measured as the proportionate share of the total net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2022. The total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2021 rolled forward to measurement date June 30, 2022 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, as actuarially determined.

The District's proportionate share of the net pension liability for each Plan as of June 30, 2022 and June 30, 2023 were as follows:

	CalSTRS		Total For District Employees	CalPERS
	District's Proportionate Share	State's Proportionate Share*		District's Proportionate Share
<u>Governmental Activities</u>				
Proportion June 30, 2022	0.002026%	0.001313%	0.003339%	0.003457%
Proportion June 30, 2023	0.001916%	0.001169%	0.003085%	0.003340%
Change in Proportion	-0.000110%	-0.000144%	-0.000254%	-0.000117%

*Represents State's Proportionate Share on behalf of District employees.

a. Pension Expense

	Governmental Activities		
	CalSTRS	CalPERS	Total
State On Behalf Pension Expense	\$ 393,110	\$ -	\$ 393,110
Employer Contributions	283,978	145,106	429,084
Change In:			
Net Pension Liability	409,370	446,302	855,672
Deferred Outflows of Resources	20,932	(438,763)	(417,831)
Deferred Inflows of Resources	(667,153)	46,009	(621,144)
Total Pension Expense - Governmental	\$ 440,237	\$ 198,654	\$ 638,891

Vallecitos School District

Notes to the Financial Statements, Continued

June 30, 2023

b. Deferred Outflows and Inflows of Resources

At June 30, 2023, 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
<u>Governmental Activities</u>			
Contributions Subsequent to Measurement	\$ 283,978	\$ 145,106	\$ 429,084
Experience Differences	1,057	4,883	5,940
Changes in Assumptions	56,113	85,016	141,129
Changes in Proportionate Share	53,717	113,176	166,893
Earnings Differences	-	126,835	126,835
Total Deferred Outflows of Resources	<u>\$ 394,865</u>	<u>\$ 475,016</u>	<u>\$ 869,881</u>

	Deferred Inflows of Resources		
	CalSTRS	CalPERS	Total
<u>Governmental Activities</u>			
Experience Differences	\$ 103,791	\$ 28,633	\$ 132,424
Changes in Proportionate Share	44,697	19,033	63,730
Earnings Differences	94,504	-	94,504
Total Deferred Inflows of Resources	<u>\$ 242,992</u>	<u>\$ 47,666</u>	<u>\$ 290,658</u>

Pension contributions made subsequent to the measurement date reported as deferred outflows of resources will be recognized as a portion of pension expense in the year ended June 30, 2024. 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,	Governmental Activities				
	Deferred Outflows of Resources		Deferred Inflows of Resources		Net Effect on Expenses
	CalSTRS	CalPERS	CalSTRS	CalPERS	
2024	\$ 381,921	\$ 253,691	\$ (91,193)	\$ (14,803)	\$ 529,616
2025	6,964	89,081	(95,362)	(14,802)	(14,119)
2026	2,990	49,501	(122,750)	(13,302)	(83,561)
2027	2,990	82,743	85,223	(4,759)	166,197
2028	-	-	(14,329)	-	(14,329)
Thereafter	-	-	(4,581)	-	(4,581)
Total	<u>\$ 394,865</u>	<u>\$ 475,016</u>	<u>\$ (242,992)</u>	<u>\$ (47,666)</u>	<u>\$ 579,223</u>

Vallecitos School District

Notes to the Financial Statements, Continued

June 30, 2023

c. Actuarial Assumptions

Total pension liabilities for the fiscal year ended June 30, 2023, were based on actuarial valuations determined using the following actuarial assumptions:

	CalSTRS	CalPERS
Fiscal Year	June 30, 2023	June 30, 2023
Measurement Date	June 30, 2022	June 30, 2022
Valuation Date	June 30, 2021	June 30, 2021
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Experience Study Period	2015 - 2018	2000 - 2019
Actuarial Assumptions:		
Discount Rate	7.10%	6.90%
Inflation	2.75%	2.30%
Payroll Growth	3.50%	(3)
Investment Rate of Return	7.00%	6.90%
Post Retirement Benefit Increase	(1)	(4)
Mortality	(2)	(5)

- (1) CalSTRS post-retirement benefit increases assumed at 2% simple (annually) maintaining 85% purchasing power level.
- (2) CalSTRS base mortality tables are custom tables derived to best fit the patterns of mortality among CalSTRS members. The projection scale was set to equal 110% of the ultimate improvement factor from the Mortality Improvement Scale (MP-2019) table issued by the Society of Actuaries.
- (3) Varies by entry age and service.
- (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 2021 experience study report (based on CalPERS demographic data from 2000 to 2019) that can be found on the CalPERS website.

Vallecitos School District

Notes to the Financial Statements, Continued

June 30, 2023

d. Discount Rate

The discount rate used to measure the total pension liability was 7.10% for CalSTRS and 6.90% for CalPERS. The projection of cash flows used to determine the discount rates assumed the contributions from the 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 discount bond rate calculations is not necessary for either plan. The stress test results are presented in detailed reports that can be obtained from 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. Finally, the CalPERS discount rate was decreased from 7.15% to 6.90% at measurement date June 30, 2022 (fiscal year June 30, 2023) resulting from a new actuarial experience study completed.

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 valuation 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. CalSTRS completed their ALM November 2019 with new policies in effect on July 1, 2021. CalPERS completed their ALM in 2021 with new policies in effect on July 1, 2022. 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, Continued

June 30, 2023

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

CalSTRS		
<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return*</u>
Public Equity	42.00%	4.75%
Private Equity	13.00%	6.25%
Real Estate	15.00%	3.55%
Inflation Sensitive	6.00%	3.25%
Fixed Income	12.00%	1.25%
Risk Mitigating Strategies	10.00%	1.75%
Cash/Liquidity	2.00%	-0.35%
*20 year average		

CalPERS		
<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return*</u>
Global Equity - cap weighted	30.00%	4.54%
Global Equity - non-cap weighted	12.00%	3.84%
Private Equity	13.00%	7.28%
Treasury	5.00%	0.27%
Mortgage-backed Securities	5.00%	0.50%
Investment Grade Corporates	10.00%	1.56%
High Yield	5.00%	2.27%
Emerging Market Debt	5.00%	2.48%
Private Debt	5.00%	3.57%
Real Assets	15.00%	3.21%
Leverage	-5.00%	-0.59%
*20 year average		

Vallecitos School District

Notes to the Financial Statements, Continued

June 30, 2023

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

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

	<u>CalSTRS</u>	<u>CalPERS</u>
1% Decrease	6.10%	5.90%
Net Pension Liability	\$ 2,261,129	\$ 1,660,169
Current Discount Rate	7.10%	6.90%
Net Pension Liability	\$ 1,331,346	\$ 1,149,263
1% Increase	8.10%	7.90%
Net Pension Liability	\$ 559,357	\$ 727,019

Vallecitos School District

Notes to the Financial Statements, Continued

June 30, 2023

1. Total Pension Liability, Pension Plan Fiduciary Net Position and Net Pension Liability

CalSTRS Governmental Activities

	Increase (Decrease)				
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)	State's Share of Net Pension Liability (c)	District's Share of Net Pension Liability (a) - (b) - (c)
Balance at June 30, 2022					
(Previously Reported)	\$ 11,880,184	\$ 10,360,698	\$ 1,519,486	\$ 597,510	\$ 921,976
Changes for the year					
Change in proportionate share	(903,734)	(788,145)	(115,589)	(65,529)	(50,060)
Service cost	236,774	-	236,774	89,721	147,053
Interest	777,297	-	777,297	294,541	482,756
Experience differences	(51,612)	-	(51,612)	(19,557)	(32,055)
Change in assumptions	-	-	-	-	-
Change in benefits	2,160	-	2,160	818	1,342
Contributions:					
Employer	-	201,184	(201,184)	(76,235)	(124,949)
Employee	-	125,483	(125,483)	(47,549)	(77,934)
State on behalf	-	132,037	(132,037)	(50,033)	(82,004)
Net investment income	-	(227,990)	227,990	86,392	141,598
Other income	-	4,017	(4,017)	(1,522)	(2,495)
Benefit payments ⁽¹⁾	(540,698)	(540,698)	-	-	-
Administrative expenses	-	(5,896)	5,896	2,234	3,662
Borrowing costs	-	(3,788)	3,788	1,435	2,353
Other expenses	-	(165)	165	62	103
Net changes	(479,813)	(1,103,961)	624,148	214,778	409,370
Balance at June 30, 2023	\$ 11,400,371	\$ 9,256,737	\$ 2,143,634	\$ 812,288	\$ 1,331,346

(1) – Includes refunds of employee contributions

Vallecitos School District

Notes to the Financial Statements, Continued

June 30, 2023

CalPERS Governmental Activities

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at June 30, 2022			
(Previously Reported)	\$ 3,694,063	\$ 2,991,102	\$ 702,961
Changes for the year			
Change in proportionate share	(125,023)	(101,232)	(23,791)
Service cost	83,010	-	83,010
Interest	248,356	-	248,356
Experience differences	(37,020)	-	(37,020)
Change in assumptions	114,332	-	114,332
Change in benefits	-	-	-
Contributions:			
Employer	-	118,807	(118,807)
Employee	-	36,882	(36,882)
Nonemployer	-	-	-
Net plan to plan resource movement	-	-	-
Net investment income	-	(215,311)	215,311
Benefit payments ⁽¹⁾	(176,979)	(176,979)	-
Administrative expenses	-	(1,793)	1,793
Other expenses	-	-	-
Net changes	<u>106,676</u>	<u>(339,626)</u>	<u>446,302</u>
Balance at June 30, 2023	<u>\$ 3,800,739</u>	<u>\$ 2,651,476</u>	<u>\$ 1,149,263</u>

(1) – Includes refunds of employee contributions

Detailed information about each pension plan's fiduciary net position is available in the separately issued CalSTRS and CalPERS financial reports available on their respective websites.

Vallecitos School District

Notes to the Financial Statements, Continued

June 30, 2023

M. Risk Management

The District is exposed to risk of losses due to:

- Torts,
- Theft of, damage to, or destruction of assets,
- Business interruption,
- Errors or omissions,
- Job related illness or injuries to employees,
- Natural disasters,
- Other risks associated with public entity risk pools

Risk management is the process of managing the District's activities to minimize the adverse effects of these risks. The main element of risk management are risk control (to minimize the losses that strike an organization) and risk financing (to obtain finances to provide for or restore the economic damages of those losses). Risk financing techniques include risk retention, risk transfer to and from an insurer, and risk transfer to a non-insurer.

The District has implemented the risk financing technique of risk transfer to an insurer. The District has purchased property & liability insurance as well as workers compensation insurance to cover any losses resulting from the risks identified above.

There have been no significant changes in property and liability or workers compensation coverage during the current fiscal year.

N. Participation in Joint Powers Authorities

The District is a member of two joint powers agreements (JPA) entities, the San Diego County Schools Risk Management and the San Diego County Fringe Benefit Consortium for the operation of a common risk management and insurance programs for property and liability coverage, workers compensation, and other employee benefits. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. There have been no significant reductions in insurance coverage from coverage in the prior year.

The 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.

Vallecitos School District

Notes to the Financial Statements, Continued

June 30, 2023

O. Commitments and Contingencies

1. State and Federal Allowances, Awards, and Grants

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

2. 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 as of June 30, 2023.

3. Construction Commitments

As of June 30, 2023, the District did not have any commitments for ongoing construction projects.

P. Deferred Outflows of Resources

In accordance with GASB Statement No. 68 & 71, payments made subsequent to the pension plan measurement date and other items as outlined in the GASB pronouncement have been recorded as deferred outflows of resources.

A summary of the deferred outflows of resources as of June 30, 2023, is as follows:

Description	Beginning Balance	Increases	Decreases	Ending Balance
Pension Related				
CalSTRS	\$ 415,797	\$ 283,978	\$ 304,910	\$ 394,865
CalPERS	36,253	673,153	234,390	475,016
Total Deferred Outflows of Resources	\$ 452,050	\$ 957,131	\$ 539,300	\$ 869,881

Future amortization of deferred outflows of resources is as follows:

Year Ending June 30,	Pension Related
2024	\$ 635,612
2025	96,045
2026	52,491
2027	85,733
2028	-
Total	\$ 869,881

Vallecitos School District

Notes to the Financial Statements, Continued

June 30, 2023

Q. Deferred Inflows of Resources

In accordance with GASB Statement No. 68 & 71, items as outlined in the GASB statement have been recorded as deferred inflows of resources.

A summary of the deferred inflows of resources as of June 30, 2023, is as follows:

<u>Description</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Pension Related				
CalSTRS	\$ 910,145	\$ (479,697)	\$ 187,456	\$ 242,992
CalPERS	1,657	60,811	14,802	47,666
Total Deferred Inflows of Resources	<u>\$ 911,802</u>	<u>\$ (418,886)</u>	<u>\$ 202,258</u>	<u>\$ 290,658</u>

Future amortization of deferred inflows of resources is as follows:

<u>Year Ending June 30,</u>	<u>Pension Related</u>
2024	\$ 105,996
2025	110,164
2026	136,052
2027	(80,464)
2028	14,329
Thereafter	4,581
Total	<u>\$ 290,658</u>

Vallecitos School District

Notes to the Financial Statements, Continued

June 30, 2023

R. Restatement of Beginning Net Position

The beginning net position for the governmental activities have been restated to account for the following:

- Correct amounts in capital assets

The table below presents the adjustments to beginning net position:

Beginning Net Position/Fund Balance as Reported in June 30, 2022 Audit Report	\$ 1,601,721
Adjustments to Beginning Balance	
Adjustment to beginning capital assets	123,172
Beginning Net Position/Fund Balance as Restated	<u>\$ 1,724,893</u>

S. Upcoming Accounting Guidance

The Governmental Accounting Standards Board (GASB) issues pronouncements and additional guidance for governmental agencies to establish consistent accounting across all governments in the United States. The following table represents items that have been issued by GASB that will become effective in future periods:

Description	Date Issued	Fiscal Year Effective
GASB Statement 99, Omnibus 2022 (Portions related to financial guarantees and derivative instruments)	04/2022	2024-25
GASB Statement 100, Accounting Changes for Error Corrections	06/2022	2024-25
GASB Statement 101, Compensated Absences	06/2022	2024-25
GASB Implementation Guide 2021-1, Implementation Guidance Update - 2021 (Question 5.1)	05/2021	2024-25
GASB Implementation Guide 2023-1, Implementation Guidance Update - 2023	06/2023	2024-25

The effects of the upcoming guidance and pronouncements on the District’s financial statements has not yet been determined.

Required Supplementary Information

Vallecitos School District

Budgetary Comparison Schedule – General Fund

For the Year Ended June 30, 2023

	Budgeted Amounts			Variance to Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
LCFF Sources				
State Apportionment	\$ 1,344,302	\$ 1,355,875	\$ 1,355,875	\$ -
Education Protection Account	65,484	51,480	58,601	7,121
Property Taxes	1,073,531	1,087,677	1,075,607	(12,070)
Federal Revenue	492,113	579,989	402,807	(177,182)
Other State Revenue	965,466	2,094,221	2,249,518	155,297
Interest Income	9,370	23,000	-	(23,000)
FMV Adjustment	-	-	-	-
Other Local Revenue	580,607	578,698	623,076	44,378
Total Revenues	<u>4,530,873</u>	<u>5,770,940</u>	<u>5,765,484</u>	<u>(5,456)</u>
Expenditures				
Current Expenditures:				
Certificated Salaries	1,767,611	1,508,493	1,464,529	43,964
Classified Salaries	551,743	578,135	518,688	59,447
Employee Benefits	1,036,691	1,041,994	868,979	173,015
Books and Supplies	164,636	374,947	329,964	44,983
Services and Other Operating	706,629	1,164,435	1,140,291	24,144
Other Outgo	-	75,791	51,378	24,413
Capital Outlay	-	-	-	-
Total Expenditures	<u>4,227,310</u>	<u>4,743,795</u>	<u>4,373,829</u>	<u>369,966</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>303,563</u>	<u>1,027,145</u>	<u>1,391,655</u>	<u>364,510</u>
Other Financing Sources (Uses)				
Transfers Out	-	-	(1,799)	(1,799)
Net Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>(1,799)</u>	<u>-</u>
Net Change in Fund Balance	303,563	1,027,145	1,389,856	362,711
Fund Balance - Beginning of Year	<u>1,227,497</u>	<u>1,227,497</u>	<u>1,227,497</u>	<u>-</u>
Fund Balance - End of Year	<u>\$ 1,531,060</u>	<u>\$ 2,254,642</u>	<u>\$ 2,617,353</u>	<u>\$ 362,711</u>

See Accompanying Notes to Required Supplementary Information

Vallecitos School District

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

Last Ten Fiscal Years*

	Fiscal Year									
	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
District's proportion of the net pension liability (asset)	0.001916%	0.002026%	0.002034%	0.002012%	0.001763%	0.002209%	0.002042%	0.002039%	0.002054%	N/A
District's proportionate share of the net pension liability (asset)	\$ 1,331,346	\$ 921,976	\$ 1,971,130	\$ 1,817,190	\$ 1,620,320	\$ 2,042,889	\$ 1,612,406	\$ 1,367,671	\$ 1,202,311	N/A
State's proportionate share of the net pension liability (asset) associated with the District	812,288	597,510	1,092,647	1,243,673	936,825	1,213,341	922,046	728,445	732,213	N/A
Total	<u>\$ 2,143,634</u>	<u>\$ 1,519,486</u>	<u>\$ 3,063,777</u>	<u>\$ 3,060,863</u>	<u>\$ 2,557,145</u>	<u>\$ 3,256,230</u>	<u>\$ 2,534,452</u>	<u>\$ 2,096,116</u>	<u>\$ 1,934,524</u>	<u>N/A</u>
District's covered payroll**	1,223,115	1,190,390	1,252,105	1,356,707	936,043	1,168,013	1,014,599	942,335	910,293	N/A
District's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	108.85%	77.45%	157.43%	133.94%	173.10%	174.90%	158.92%	145.14%	132.08%	N/A
Plan fiduciary net position as a percentage of the total pension liability	81.20%	87.21%	71.82%	72.56%	70.99%	69.46%	70.04%	74.02%	76.52%	N/A

*This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

**Covered payroll on this schedule is based on measurement date, as such covered payroll represented for each fiscal year is the covered payroll from the prior year as identified on the schedule of contributions.

See Accompanying Notes to Required Supplementary Information

Vallecitos School District

Schedule of the District's Contributions - CalSTRS

Last Ten Fiscal Years*

	Fiscal Year									
	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Contractually required contribution	\$ 283,978	\$ 206,964	\$ 192,248	\$ 214,110	\$ 176,020	\$ 135,071	\$ 146,936	\$ 108,866	\$ 83,679	N/A
Contributions in relation to the contractually required contribution	(283,978)	(206,964)	(192,248)	(214,110)	(176,020)	(135,071)	(146,936)	(108,866)	(83,679)	N/A
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	N/A
District's covered payroll**	\$ 1,486,796	\$ 1,223,191	\$ 1,190,390	\$ 1,252,105	\$ 1,081,204	\$ 936,043	\$ 1,168,013	\$ 1,014,599	\$ 942,335	N/A
Contributions as a percentage of covered payroll	19.10%	16.92%	16.15%	17.10%	16.28%	14.43%	12.58%	10.73%	8.88%	N/A

*This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

**Covered payroll on this schedule is based on the fiscal year.

See Accompanying Notes to Required Supplementary Information

Vallecitos School District

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

Last Ten Fiscal Years*

	Fiscal Year									
	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
District's proportion of the net pension liability (asset)	0.003300%	0.003457%	0.003206%	0.002745%	0.002497%	0.002455%	0.002386%	0.002555%	0.002597%	N/A
District's proportionate share of the net pension liability (asset)	\$ 1,149,263	\$ 702,961	\$ 983,699	\$ 800,010	\$ 665,779	\$ 586,073	\$ 471,287	\$ 376,674	\$ 294,806	N/A
District's covered payroll**	\$ 518,603	\$ 496,309	\$ 465,945	\$ 384,210	\$ 332,889	\$ 315,294	\$ 288,968	\$ 284,182	\$ 273,047	N/A
District's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	221.61%	141.64%	211.12%	208.22%	200.00%	185.88%	163.09%	132.55%	107.97%	N/A
Plan fiduciary net position as a percentage of the total pension liability	69.76%	80.97%	70.00%	70.05%	70.85%	71.87%	73.90%	79.43%	83.38%	N/A

*This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

**Covered payroll on this schedule is based on measurement date, as such covered payroll represented for each fiscal year is the covered payroll from the prior year as identified on the schedule of contributions.

See Accompanying Notes to Required Supplementary Information

Vallecitos School District

Schedule of the District's Contributions - CalPERS

Last Ten Fiscal Years*

	Fiscal Year									
	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Contractually required contribution	\$ 145,106	\$ 118,812	\$ 102,736	\$ 91,889	\$ 69,396	\$ 51,701	\$ 43,788	\$ 34,234	\$ 33,451	N/A
Contributions in relation to the contractually required contribution	(145,106)	(118,812)	(102,736)	(91,889)	(69,396)	(51,701)	(43,788)	(34,234)	(33,451)	N/A
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	N/A
District's covered payroll**	\$ 571,959	\$ 518,603	\$ 496,309	\$ 465,945	\$ 384,210	\$ 332,889	\$ 315,294	\$ 288,968	\$ 284,182	N/A
Contributions as a percentage of covered payroll	25.370%	22.910%	20.700%	19.721%	18.062%	15.531%	13.888%	11.847%	11.771%	N/A

*This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

**Covered payroll on this schedule is based on the fiscal year.

Vallecitos School District

Notes to Required Supplementary Information
For the Year Ended June 30, 2023

Budgetary Comparison Schedule Reconciliation

As described in Note A to these financial statements, for purposes of reporting in conformity with GASB Statement No. 54, the District's Special Reserve Fund for Other Than Capital Outlay (Fund 17) does not meet the definition of a special revenue fund and is therefore included with the General Fund for reporting purposes. The budgetary comparison schedule included in the Required Supplementary Information is based on the legally adopted budget for the General Fund only. Below represents a reconciliation between the schedules:

General Fund - Basic Financial Statements Ending Fund Balance	\$ 3,163,824
Less Fund 17 Fund Balance	<u>(546,471)</u>
General Fund - Budgetary Comparison Schedule Ending Fund Balance	<u>\$ 2,617,353</u>
General Fund - Basic Financial Statements Net Change in Fund Balance	\$ 1,390,959
Less Fund 17 Net Change in Fund Balance	<u>(1,103)</u>
General Fund - Budgetary Comparison Schedule Net Change in Fund Balance	<u>\$ 1,389,856</u>

Excess of Expenditures Over Appropriations

As of June 30, 2023, the District did not have any expenditures which exceeded appropriations in individual budgeted funds.

Amounts in excess of appropriations were not considered a violation of any laws, regulations, contracts or grant agreements and did not have a direct or material effect on the financial statements.

Vallecitos School District

Notes to Required Supplementary Information, Continued

For the Year Ended June 30, 2023

Schedule of District's Proportionate Share – CalSTRS

1. Benefit Changes: There were no changes to benefits during the periods being reported.
2. Changes in Assumptions: Assumptions used in determining the total pension liability of the CalSTRS Plan changed due to actuarial experience studies. Changes in assumptions effective in fiscal year 2020-21 (measured as of June 30, 2020) were to termination rates and service retirement rates based on the experience study for the period July 1, 2015, through June 30, 2018. Changes in assumptions effective in fiscal year 2017-18 (measured as of June 30, 2017) were to price inflation, wage growth, discount rate and mortality tables based on the experience study for the period July 1, 2010, through June 30, 2015.

Schedule of District's Contributions – CalSTRS

The total pension liability for California State Teachers' Retirement System (CalSTRS) for measurement date June 30, 2021, was determined with a valuation completed June 30, 2020 (released in May 2021). In determining the total pension liability, the financial reporting actuarial valuation used the following actuarial methods and assumptions:

Reporting Period	June 30, 2015	June 30, 2016	June 30, 2017	June 30, 2018	June 30, 2019
Measurement Date	06/30/14	06/30/15	06/30/16	06/30/17	06/30/18
Valuation Date	06/30/13	06/30/14	06/30/15	06/30/16	06/30/17
Experience Study	07/01/06 - 06/30/10	07/01/06 - 06/30/10	07/01/06 - 06/30/10	07/01/06 - 06/30/15	07/01/06 - 06/30/15
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal
Investment Rate of Return ⁽¹⁾	7.60%	7.60%	7.60%	7.10%	7.10%
Consumer Price Inflation	3.00%	3.00%	3.00%	2.75%	2.75%
Wage Growth (Average)	3.75%	3.75%	3.75%	3.50%	3.50%
Post-retirement Benefit Increases	2.00% Simple	2.00% Simple	2.00% Simple	2.00% Simple	2.00% Simple

Reporting Period	June 30, 2020	June 30, 2021	June 30, 2022	June 30, 2023
Measurement Date	06/30/19	06/30/20	06/30/21	06/30/22
Valuation Date	06/30/18	06/30/19	06/30/20	06/30/21
Experience Study	07/01/06 - 06/30/15	07/01/15 - 06/30/18	07/01/15 - 06/30/18	07/01/15 - 06/30/18
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal
Investment Rate of Return ⁽¹⁾	7.10%	7.10%	7.10%	7.10%
Consumer Price Inflation	2.75%	2.75%	2.75%	2.75%
Wage Growth (Average)	3.50%	3.50%	3.50%	3.50%
Post-retirement Benefit Increases	2.00% Simple	2.00% Simple	2.00% Simple	2.00% Simple

(1) – Net of investment expenses but gross of administrative expenses.

CalSTRS uses a generational mortality assumption, which involves the use of 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 CalSTRS members. The projection scale was set equal to 110% of the ultimate improvement factor from the Mortality Improvement Scale (MP-2019) table issued by the Society of Actuaries.

Additional information can be obtained by reviewing the CalSTRS Actuarial Experience Study on the CalSTRS website.

Vallecitos School District

Notes to Required Supplementary Information, Continued

For the Year Ended June 30, 2023

Schedule of District's Proportionate Share – CalPERS

1. Benefit Changes: There were no changes to benefits during the periods being reported.
2. Changes in Assumptions. On December 21, 2016, the CalPERS Board lowered the discount rate for funding purposes from 7.50% to 7.00% using a three-year phase-in beginning with the June 30, 2016, actuarial valuations and the June 30, 2017 valuations for the School Pool. Subsequently the CalPERS Board decrease from 7.25% to 7.15% for the school pool valuation occurred in the June 30, 2019, valuation. Finally, the CalPERS board decreased the discount rate from 7.15% to 6.90% for measurement date June 30, 2022 as a result of the 2021 experience study. Additional adjustments were made to mortality and other assumptions based upon the experience study completed in 2021.

Schedule of District's Contributions – CalPERS

The total pension liability for California Public Employees Retirement System – School Pool (CalPERS) for measurement date June 30, 2021, was determined with a valuation completed June 30, 2020. In determining the total pension liability, the financial reporting actuarial valuation used the following actuarial methods and assumptions:

Reporting Period	June 30, 2015	June 30, 2016	June 30, 2017	June 30, 2018	June 30, 2019
Measurement Date	06/30/14	06/30/15	06/30/16	06/30/17	06/30/18
Valuation Date	06/30/13	06/30/14	06/30/15	06/30/16	06/30/17
Experience Study	07/01/97 - 06/30/11	07/01/97 - 06/30/11	07/01/97 - 06/30/11	07/01/97 - 06/30/11	07/01/97 - 06/30/15
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal
Investment Rate of Return	7.50%	7.65%	7.65%	7.15%	7.15%
Consumer Price Inflation	2.75%	2.75%	2.75%	2.75%	2.50%
Wage Growth (Average)	3.00%	3.00%	3.00%	3.00%	3.00%
Post-retirement Benefit Increases	2.00% Simple	2.00% Simple	2.00% Simple	2.00% Simple	2.00% Simple

Reporting Period	June 30, 2020	June 30, 2021	June 30, 2022	June 30, 2023
Measurement Date	06/30/19	06/30/20	06/30/21	06/30/22
Valuation Date	06/30/18	06/30/19	06/30/20	06/30/21
Experience Study	07/01/97 - 06/30/15	07/01/97 - 06/30/15	07/01/97 - 06/30/15	07/01/00 - 06/30/19
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal
Investment Rate of Return	7.15%	7.15%	7.15%	6.90%
Consumer Price Inflation	2.50%	2.50%	2.50%	2.50%
Wage Growth (Average)	3.00%	2.75%	2.75%	2.75%
Post-retirement Benefit Increases	2.00% Simple	2.00% Simple	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 2021 experience study report (based on demographic data from 2000 to 2019) available on the CalPERS website.

Combining Statements as Supplementary Information

Vallecitos School District

Combining Balance Sheet – Nonmajor Governmental Funds

June 30, 2023

	Special Revenue Funds		Capital Projects Funds		Total Nonmajor Governmental Funds
	Child Development Fund	Cafeteria Fund	Capital Facilities Fund	County School Facilities Fund	
Assets					
Cash and Cash Equivalents	\$ 72,650	\$ 66,737	\$ 21,766	\$ 361,989	\$ 523,142
Accounts Receivable	220	30,488	110	-	30,818
Due from Other Funds	1,799	-	-	-	1,799
Stores Inventories	-	8,063	-	-	8,063
Total Assets	<u>\$ 74,669</u>	<u>\$ 105,288</u>	<u>\$ 21,876</u>	<u>\$ 361,989</u>	<u>\$ 563,822</u>
Liabilities and Fund Balance:					
Liabilities:					
Accounts Payable	\$ 30,733	\$ 29,333	\$ -	\$ -	\$ 60,066
Total Liabilities	<u>30,733</u>	<u>29,333</u>	<u>-</u>	<u>-</u>	<u>60,066</u>
Fund Balance:					
Nonspendable	-	8,063	-	-	8,063
Restricted	43,936	67,892	21,876	361,989	495,693
Total Fund Balance	<u>43,936</u>	<u>75,955</u>	<u>21,876</u>	<u>361,989</u>	<u>503,756</u>
Total Liabilities and Fund Balances	<u>\$ 74,669</u>	<u>\$ 105,288</u>	<u>\$ 21,876</u>	<u>\$ 361,989</u>	<u>\$ 563,822</u>

Vallecitos School District

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds June 30, 2023

	Special Revenue Funds		Capital Projects Funds		Total Nonmajor Governmental Funds
	Child Development Fund	Cafeteria Fund	Capital Facilities Fund	County School Facilities Fund	
Revenues					
Federal Revenue	\$ 23,560	\$ 200,112	\$ -	\$ -	\$ 223,672
Other State Revenue	205	21,688	-	-	21,893
Interest	-	538	301	6,476	7,315
FMV Adjustment	(1,772)	(1,524)	(413)	(1,135)	(4,844)
Other Local Revenue	-	660	14,222	-	14,882
Total Revenues	<u>\$ 21,993</u>	<u>\$ 221,474</u>	<u>\$ 14,110</u>	<u>\$ 5,341</u>	<u>\$ 262,918</u>
Expenditures					
Current Expenditures:					
Instruction	15,460	-	-	-	15,460
Instruction - Related Services	-	190,176	-	-	190,176
Total Expenditures	<u>15,460</u>	<u>190,176</u>	<u>-</u>	<u>-</u>	<u>205,636</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>6,533</u>	<u>31,298</u>	<u>14,110</u>	<u>5,341</u>	<u>57,282</u>
Other Financing Sources (Uses):					
Transfers In	1,799	-	-	-	1,799
Total Other Financing Sources (Uses)	<u>1,799</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,799</u>
Net Change in Fund Balance	8,332	31,298	14,110	5,341	59,081
Fund Balance, Beginning of Year	35,604	44,657	7,766	356,648	444,675
Fund Balance, End of Year	<u>\$ 43,936</u>	<u>\$ 75,955</u>	<u>\$ 21,876</u>	<u>\$ 361,989</u>	<u>\$ 503,756</u>

Other Supplementary Information

Vallecitos School District

Local Education Agency Organization Structure

June 30, 2023

The Vallecitos School District was established in 1921 and is comprised of approximately 618.6 square miles, located in San Diego County. There were no changes to the boundaries of the District during the current fiscal year. The District currently operates one elementary school for grades K-8.

GOVERNING BOARD

<u>Name</u>	<u>Office</u>	<u>Term and Term Expiration</u>
Michael Darnley	President	Four Year Term Expires December 2026
Martin Kurland	Vice President	Four Year Term Expires December 2026
Chris Howells	Trustee	Four Year Term Expires December 2024
Terese Kristensen	Trustee	Four Year Term Expires December 2024

ADMINISTRATION

Meliton Sanchez
Superintendent/CBO

Cheri Wheeler
Business Manager

Vallecitos School District
 Schedule of Average Daily Attendance
 Year Ended June 30, 2023

	Second Period Report		Annual Report	
	Original 2D06B7FF	Revised	Original C442A4F4	Revised
TK/K-3				
Regular ADA	79.16	N/A	80.24	N/A
Total TK/K-3	79.16	N/A	80.24	N/A
Grades 4-6				
Regular ADA	58.89	N/A	59.41	N/A
Total Grades 4-6	58.89	N/A	59.41	N/A
Grades 7-8				
Regular ADA	36.56	N/A	37.38	N/A
Total Grades 7-8	36.56	N/A	37.38	N/A
Total ADA	174.61	N/A	177.03	N/A

N/A – There were no audit findings which resulted in revisions to average daily attendance (ADA).

Average daily attendance is a measurement of the number of pupils attending classes of the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of state funds are made to school districts and charter schools. This schedule provides information regarding the attendance of students by grade span and adjustments to the attendance as a result of an audit finding when applicable.

Vallecitos School District
 Schedule of Instructional Time
 Year Ended June 30, 2023

<u>Grade Level</u>	<u>Annual Minutes Requirement</u>	<u>Actual Minutes Offered</u>	<u>J-13A Minutes</u>	<u>Total Minutes</u>	<u>Number of Actual Days Offered (Traditional)</u>	<u>J-13A Days</u>	<u>Total Instructional Days</u>	<u>Status</u>
Transitional Kindergarten	36,000	59,594	0	59,594	180	0	180	Complied
Kindergarten	36,000	59,594	0	59,594	180	0	180	Complied
1st Grade	50,400	58,224	0	58,224	180	0	180	Complied
2nd Grade	50,400	58,224	0	58,224	180	0	180	Complied
3rd Grade	50,400	58,224	0	58,224	180	0	180	Complied
4th Grade	54,000	58,224	0	58,224	180	0	180	Complied
5th Grade	54,000	58,224	0	58,224	180	0	180	Complied
6th Grade	54,000	58,224	0	58,224	180	0	180	Complied
7th Grade	54,000	58,224	0	58,224	180	0	180	Complied
8th Grade	54,000	58,224	0	58,224	180	0	180	Complied

This schedule provides the information necessary to determine if the District has complied with Article 8 (commencing with Section 46200) of Chapter 2 of Part 26 of the Education Code. The requirements are as follows:

- 1) EC §46207: As a condition of apportionment the following annual instructional minutes must be offered:
 - To pupils in Kindergarten 36,000 minutes
 - To pupils in grades 1 to 3 50,400 minutes
 - To pupils in grades 4 to 8 54,000 minutes
 - To pupils in grades 9 to 12 64,800 minutes

- 2) EC §46208: As a condition of apportionment 180 school days must be offered for traditional calendars. In order to qualify as a school day the following minimum daily minutes must be met:
 - EC §46112: Grades 1 to 3 230 minutes
 - EC §46113: Grades 4 to 8 240 minutes
 - EC §46114: Kindergarten 180 minutes
 - EC §46141: Grades 9 to 12 240 minutes

Vallecitos School District

Schedule of Financial Trends and Analysis Year Ended June 30, 2023

General Fund	Budget 2024 (See Note 1)	2023	2022	2021
Revenues and Other Financing Sources	\$ 3,739,510	\$ 5,765,484	\$ 3,862,300	\$ 3,554,985
Expenditures and Other Financing Uses	4,625,443	4,375,628	3,776,222	3,727,141
Net Change in Fund Balance	(885,933)	1,389,856	86,078	(172,156)
Ending Fund Balance	<u>\$ 1,731,420</u>	<u>\$ 2,617,353</u>	<u>\$ 1,227,497</u>	<u>\$ 1,141,419</u>
Available Reserves (See Note 2)	<u>\$ 409,202</u>	<u>\$ 1,467,668</u>	<u>\$ 1,446,503</u>	<u>\$ 1,150,687</u>
Available Reserves as a Percentage of Total Outgo	<u>8.85%</u>	<u>33.54%</u>	<u>38.31%</u>	<u>30.87%</u>
Long Term Debt	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Average Daily Attendance at P2	<u>179</u>	<u>175</u>	<u>157</u>	<u>186</u>

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 general fund balance has increased by \$1,475,934 (129.31%) over the past two years. The fiscal year 2023-24 budget projects a decrease of \$885,933 (33.85%). For a district of this size, the State recommends available reserves of 5% of total general fund expenditures and other financing uses (total outgo) or \$71,000 whichever is greater.

The District has no long-term debt.

ADA has decreased by 11 (5.91%) as compared to 2020-21. As a result of the COVID-19 pandemic there was no attendance reporting for the 2020-21 fiscal year. Each LEA was funded based on the 2019-20 average daily attendance (ADA) reported.

Notes:

1. Budget 2024 is included for analytical purposes only and has not been subjected to audit.
2. Available reserves consist of all unassigned fund balances contained within the general fund and the special reserve fund for other than capital outlay.
3. As described in Note A to these financial statements, for purposes of reporting in conformity with GASB Statement No. 54, the District’s Special Reserve Fund for Other Than Capital Outlay (Fund 17) does not meet the definition of a special revenue fund and was therefore combined with the General Fund for financial statement reporting. The above Schedule of Financial Trends and Analysis contains only the financial information of the General Fund.

Vallecitos School District

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements Year Ended June 30, 2023

	General Fund (Fund 01)	Cafeteria Fund (Fund 13)	Special Reserve Fund for Other than Capital Outlay (Fund 17)
	<u> </u>	<u> </u>	<u> </u>
June 30, 2023, annual financial and budget report fund balances	\$ 2,617,353	\$ 45,657	\$ 546,471
Adjustments and reclassifications:			
Increasing (decreasing) the fund balance:			
Child Nutrition Accounts Receivable	-	30,298	-
GASB 54 Fund Presentation	<u>546,471</u>	<u>-</u>	<u>(546,471)</u>
Net adjustments and reclassifications	<u>546,471</u>	<u>30,298</u>	<u>(546,471)</u>
June 30, 2023, audited financial statement fund balances	<u>\$ 3,163,824</u>	<u>\$ 75,955</u>	<u>\$ -</u>

This schedule provides the information necessary to reconcile the fund balances of all funds as reported on the SACS Annual Financial and Budget Report with the audited financial statements. Funds that required no adjustment are not presented.

Vallecitos School District

Schedule of Charter Schools

Year Ended June 30, 2023

As of June 30, 2023, the District is not a sponsoring local educational agency for any charter schools.

This schedule is provided to list all charter schools chartered by the District and displays information for each charter school on whether or not the charter school is included in the District audit.

Other Independent Auditors' 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*

To the Board of Education
Vallecitos School District

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 the Vallecitos School District (the District), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 14, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing 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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as item 2023-001 to be material weaknesses.

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 identify deficiencies in internal control that we consider to be material weaknesses or significant deficiencies. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 financial statements. 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*.

Vallecitos School District's Response to the Findings

Vallecitos School District's response to the findings identified in our audit are described in the accompanying corrective action plan. Vallecitos School District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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.

A handwritten signature in blue ink that reads "Wilkerson Hadley King & Co. LLP".

El Cajon, California
March 14, 2024

Independent Auditor's Report on State Compliance and on
Internal Control over State Compliance

To the Board of Education
Vallecitos School District

Report on Compliance for Applicable State Programs

Opinion on Each Applicable State Program

We have audited the Vallecitos School District's (the District) compliance with the requirements specified in the *2022-23 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed in Title 5, *California Code of Regulations*, Section 19810 identified below for the year ended June 30, 2023.

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above on each of its applicable state programs for the year ended June 30, 2023.

Basis for Opinion on Each Applicable State Program

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 *2022-23 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed in Title 5, *California Code of Regulations*, Section 19810 (the Audit Guide). Our responsibilities under those standards and the Audit Guide are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each applicable state program. Our audit does not provide a legal determination of the District's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the District's state programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the District's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Audit Guide will always detect material noncompliance when it exists.

The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the District’s compliance with the requirements of each applicable state program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Audit Guide, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the District’s compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the District’s internal control over state compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Audit Guide, but not for the purpose of expressing an opinion on the effectiveness of the District’s internal control over compliance. Accordingly, no such opinion is expressed.
- Select and test transactions and records to determine the District’s compliance with the state laws and regulations applicable to the following programs:

<u>Local Education Agencies Other than Charter Schools</u>	<u>Procedures Performed</u>
A. Attendance.....	Yes
B. Teacher Certification and Misassignments.....	Yes
C. Kindergarten Continuance.....	Yes
D. Independent Study.....	Yes
E. Continuation Education.....	N/A
F. Instructional Time.....	Yes
G. Instructional Materials.....	Yes
H. Ratio of Administrative Employees to Teachers.....	Yes
I. Classroom Teacher Salaries.....	Yes
J. Early Retirement Incentive.....	N/A
K. Gann Limit Calculation.....	Yes
L. School Accountability Report Card.....	Yes
M. Juvenile Court Schools.....	N/A
N. Middle or Early College High Schools.....	N/A
O. K-3 Grade Span Adjustment.....	Yes
P. Transportation Maintenance of Effort.....	Yes
Q. Apprenticeship: Related and Supplemental Instruction.....	N/A
R. Comprehensive School Safety Plan.....	Yes
S. District of Choice.....	N/A
TT. Home to School Transportation Reimbursement.....	Yes
UU. Independent Study Certification for ADA Loss Mitigation.....	Yes

School Districts, County Offices of Education, and Charter Schools

T.	California Clean Energy Jobs Act.....	N/A
U.	After/Before School Education and Safety Program.....	Yes
V.	Proper Expenditure of Education Protection Account Funds.....	Yes
W.	Unduplicated Local Control Funding Formula Pupil Counts.....	Yes
X.	Local Control and Accountability Plan.....	Yes
Y.	Independent Study - Course Based.....	N/A
Z.	Immunizations.....	No
AZ.	Educator Effectiveness.....	Yes
BZ.	Expanded Learning Opportunities Grant (ELO-G).....	Yes
CZ.	Career Technical Education Incentive Grant.....	N/A
EZ.	Transitional Kindergarten.....	Yes

N/A – The School District did not offer the program during the current fiscal year or the program applies to a different type of local education agency.

We did not perform procedures for Immunizations because the school site for the District did not appear on the California Department of Public Health list of LEAs that are subject to the audit of immunizations.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over State 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 state 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 state 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 state 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 Auditor’s Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over state compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over state compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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 *2022-23 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed in Title 5, *California Code of Regulations*, Section 19810. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Wilkinson, Hadley King & Co. LLP". The signature is written in a cursive, flowing style.

El Cajon, California
March 14, 2024

Auditor's Results, Findings & Recommendations

Vallecitos School District

Schedule of Auditor's Results

Year Ended June 30, 2023

FINANCIAL STATEMENTS

Type of auditor's report issued:	<u>Qualified</u>	
Internal control over financial reporting:		
One or more material weakness(es) identified?	<u> X </u> Yes	<u> </u> No
One or more significant deficiencies identified that are not considered material weakness(es)?	<u> </u> Yes	<u> X </u> No
Noncompliance material to financial statements noted?	<u> </u> Yes	<u> X </u> No

STATE AWARDS

Type of auditor's report issued on compliance for state programs:	<u>Unmodified</u>	
Internal control over applicable state programs:		
One or more material weakness(es) identified?	<u> </u> Yes	<u> X </u> No
One or more significant deficiencies identified that are not considered material weakness(es)?	<u> </u> Yes	<u> X </u> No
Any audit findings disclosed that are required to be reported in accordance with <i>2022-23 Guide for Annual Audits of California K-12 Local Education Agencies?</i>	<u> </u> Yes	<u> X </u> No

Vallecitos School District

Schedule of Findings and Questioned Costs

Year Ended June 30, 2023

Findings represent significant deficiencies, material weaknesses, and/or instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*, or the *2022-23 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Finding codes as identified in the *2022-23 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* are as follows:

Five Digit Code	AB 3627 Finding Type
10000	Attendance
20000	Inventory of Equipment
30000	Internal Control
40000	State Compliance
42000	Charter School Facilities
43000	Apprenticeship: Related and Supplemental Instruction
50000	Federal Compliance
60000	Miscellaneous
61000	Classroom Teacher Salaries
62000	Local Control Accountability Plan
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

A. Financial Statement Findings

Finding Number: 2023-001
 Repeat Finding: No
 Program Name: Accounting Processes and Internal Controls
 Questioned Costs: None
 Type of Finding: Internal Controls (30000)

Criteria or Specific Requirements

Determine whether the District has accounting processes and internal controls that would allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis, whether due to error or fraud.

Condition

During our audit we identified the following conditions which indicate that management or employees, in the normal course of performing their assigned functions, would not be able to prevent or detect and correct misstatements on a timely basis:

- The District made entries into Accounts Payable whose purpose was to clear errors that were occurring in the SACS Accounting Software during close of books. The entries were not related to accounts payable however and should not have been made. We asked for a final detail of what actually existed in accounts payable as of June 30, 2023, but it could not be provided.

Vallecitos School District

Schedule of Findings and Questioned Costs, Continued
Year Ended June 30, 2023

- The District did not accrue revenue and accounts receivable for the Child Nutrition claim forms that were submitted, but not paid as of June 30, 2023.

Cause

The District does not appear to be following an established set of internal control policies and procedures as it relates to the accounting process. There appears to have been a significant reliance on the budget analyst for the accounting process without sufficient oversight and review processes in place.

Effect

The District is exposed to risk of material misstatements, whether due to error or fraud, that would not be detected by management or employees in the normal course of performing their duties. Additionally, we were not able to obtain sufficient and appropriate audit evidence over accounts payable.

Context

Internal control deficiencies were identified in multiple areas of the audit that in aggregate represent a material weakness to the District in the internal control processes.

Recommendation

We recommend the District take the following steps to remedy the material weaknesses in internal control:

- Formally adopt the most recent California School Accounting Manual as the official accounting manual for the District.
- Establish reconciliation procedures for all balance sheet accounts on the financial statements.
- Post all audit adjusting journal entries and establish a closing process that ensures any entries made to clear SACS errors are appropriate..
- Establish review procedures over the accounting processes.

Views of Responsible Officials

See Corrective Action Plan

B. State Award Findings

None



Vallecitos School District

5211 Fifth Street • Rainbow, CA 92028 • (760) 728-7092 • FAX (760) 728-7712

"A community school where we learn to achieve our dreams"

Board of Education

Michael Darnley
Terese Kristensen
Dr. Martin Kurland

Meliton Sanchez
Superintendent / CBO

March 13, 2024

District Response to Finding

Financial Statement Internal Control Finding

Finding Number: 2023-001

Program Name: Accounting Processes and Internal Controls

Contact Person: Meliton Sanchez

Completion Date: Ongoing

Planned Corrective Action:

The finding listed above related to two separate issues. The first issue related to accruals for the Learning Recovery Emergency Block Grant and the Arts, Music, & Instructional Materials Block Grant. At year end closing, the District received guidance from the San Diego County Office of Education to reduce each grant by a certain percentage. During the closing process, the CBO inadvertently crossed the resources and corresponding reduction amounts. In a moment of confusion, the CBO entered both an accounts payable accrual and an accounts receivable accrual to correct final revenue. The CBO should have reversed the first entries and then re-entered them as correct. The CBO was new to the County and the financial system, which is mostly what we attribute the confusion and error to. To the best of our knowledge similar closing entries for other resources were correct.

The second issue under this finding relates to not entering revenue accruals for Child Nutrition claim forms that were submitted, but not paid as of June 30, 2023. In this case, the Business Manager was unaware that accruals were necessary for this claim form. The District provided training guidance to the Business Manager to ensure that the District accrues all unpaid invoices and revenue claims received after June 30 of the relevant fiscal year. We do not expect this finding to occur in any future activities.

To ensure that this finding does not reoccur, we intend to engage in the following corrective strategies:

- We will ensure that we adopt the standard practices from the most recent California School Accounting Manual and ensure it is utilized as the official accounting manual for the District.
- During year-end closing, we will engage in reconciliation procedures for all balance sheet accounts on the financial statements that includes a second check of entries by the Business Manager or other department employee.
- Post all audit adjusting journal entries and establish a closing process that ensures any entries made to clear SACS errors are appropriate and twice reviewed by the department for accuracy.
- Establish review procedures for accounting processes relating to accruals.

Please contact us with questions or concerns about our explanations and proposed corrective actions.

Respectfully Submitted,

Meliton Sanchez
Superintendent / CBO

Vallecitos School District

Schedule of Prior Year Audit Findings

Year Ended June 30, 2023

Finding/Recommendation	Status	Explanation if Not Implemented
------------------------	--------	--------------------------------

There were no findings reported in the prior year audit of fiscal year ended June 30, 2022.