**CAPISTRANO UNIFIED SCHOOL DISTRICT**

**ORANGE COUNTY**

**AUDIT REPORT**

**For the Fiscal Year Ended June 30, 2019**

# CAPISTRANO UNIFIED SCHOOL DISTRICT
*For the Fiscal Year Ended June 30, 2019*
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**FINANCIAL SECTION**



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**SUPPLEMENTARY INFORMATION**

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# *Financial Section*

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# INDEPENDENT AUDITORS' REPORT

Board of Trustees
Capistrano Unified School District
San Juan Capistrano, California

**Report on the Financial Statements**
We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Capistrano Unified School District, as of and for the fiscal year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

**Auditors' Responsibility**
Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *2018-19 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting.* Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

**Opinions**
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Capistrano Unified School District, as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.



Jeff Nigro, CPA, CFE | Elizabeth Nigro, CPA | Peter Glenn, CPA | Paul J. Kaymark, CPA | Michael Klein, CPA, CMA, EA

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**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of proportionate share of the net pension liability, schedule of pension contributions, schedule of changes in the District's total OPEB liability and related ratios, schedule of the District's proportionate share of the net OPEB liability-MPP Program, and the notes to the required supplementary information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements. The supplementary information on pages 72 to 75 and the schedule of expenditures of federal awards on page 76 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole. The information on pages 71 and 77 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we do not express an opinion or provide any assurance on it.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards,* we have also issued our report dated October 22, 2019, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Nigro & Nigro, PC

Murrieta, California
October 22, 2019

This discussion and analysis of Capistrano Unified School District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2019. Please read it in conjunction with the District's financial statements, which immediately follow this section.

## FINANCIAL HIGHLIGHTS

- The District's financial status decreased overall as a result of this year's operations. Net position of governmental activities decreased by $0.6 million, or 0.2%.
- Governmental expenses were about $523.1 million. Revenues were about $522.5 million.
- The District acquired over $29.9 million in new capital assets during the year. These additions were incurred primarily from CFD and other capital projects funds.
- The District decreased its outstanding long-term debt other than pensions by $3.3 million. This was primarily due to payments on general obligation bonds.
- Grades K-12 average daily attendance (ADA) decreased by 682, or 1.5%.
- Governmental funds increased by $4.4 million, or 2.8%.
- Reserves for the General Fund increased by $11.1 million, or 27.8%.

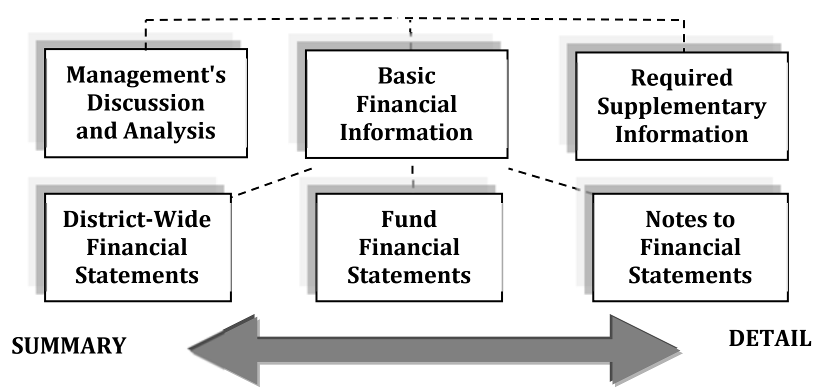
## OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *district-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.
  - The *governmental funds* statements tell how basic services like regular and special education were financed in the short term as well as what remains for future spending.
  - Short and long-term financial information about the activities of the District that operate like businesses (self-insurance funds) are provided in the *proprietary funds statements.*
  - *Fiduciary funds* statement provides information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others to whom the resources belong.

The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

**Figure A-1. Organization of Capistrano Unified School District's Annual Financial Report**



**OVERVIEW OF THE FINANCIAL STATEMENTS (continued)**

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

**Figure A-2. Major Features of the District-Wide and Fund Financial Statements**

| Type of Statements | District-Wide | Governmental Funds | Proprietary Funds | Fiduciary Funds |
|---|---|---|---|---|
| *Scope* | Entire District, except fiduciary activities | The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance | Activities of the District that operate like a business, such as self-insurance funds | Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activities monies |
| *Required financial statements* | • Statement of Net Position<br>• Statement of Activities | • Balance Sheet<br>• Statement of Revenues, Expenditures & Changes in Fund Balances | • Statement of Net Position<br>• Statement of Revenues, Expenses, & Changes in Net Position<br>• Statement of Cash Flows | • Statement of Fiduciary Net Position |
| *Accounting basis and measurement focus* | Accrual accounting and economic resources focus | Modified accrual accounting and current financial resources focus | Accrual accounting and economic resources focus | Accrual accounting |
| *Type of asset/liability information* | All assets and liabilities, both financial and capital, short-term and long-term | Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included | All assets and liabilities, both short-term and long-term; The District's funds do not currently contain nonfinancial assets, though they can | All assets and liabilities, both short-term and long-term; The District's funds do not currently contain nonfinancial assets, though they can |
| *Type of inflow/outflow information* | All revenues and expenses during year, regardless of when cash is received or paid | Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter | All revenues and expenses during the year, regardless of when cash is received or paid | All revenues and expenses during the year, regardless of when cash is received or paid |

**OVERVIEW OF THE FINANCIAL STATEMENTS (continued)**

The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

**District-Wide Statements**
The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the District's net position and how it has changed. Net position – the difference between the District's assets and deferred outflows of resources and liabilities and deferred inflows of resources – is one way to measure the District's financial health, or *position*.

- Over time, increases and decreases in the District's net position are an indicator of whether its financial position is improving or deteriorating, respectively.

- To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's demographics and the condition of school buildings and other facilities.

- In the district-wide financial statements, the District's activities are categorized as *Governmental Activities*. Most of the District's basic services are included here, such as regular and special education, transportation, and administration. Property taxes and state aid finance most of these activities.

**Fund Financial Statements**
The fund financial statements provide more detailed information about the District's most significant funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.

- The District establishes other funds to control and manage money for particular purposes (like repaying its long-term debt) or to show that is properly using certain revenues.

The District has three kinds of funds:

1) ***Governmental funds*** – Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information on a separate reconciliation page that explains the relationship (or differences) between them.

**Fund Financial Statements (continued)**

2) ***Proprietary funds*** – When the District charges other District funds for the services it provides, these services are reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and Statement of Activities. In fact, the District's internal service fund is included within the governmental activities reported in the district-wide statements but provide more detail and additional information, such as cash flows. The District uses the internal service fund to report activities that relate to the District's self-insured programs for workers compensation claims, health and welfare benefits, and property and liability claims.

3) ***Fiduciary funds*** – The District is the trustee, or fiduciary, for assets that belong to others, such as the student activities funds and CFD Debt Service. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

## FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

**Net Position.** The District's combined net position was lower on June 30, 2019, than it was the year before – decreasing 0.2% to $344.4 million (See Table A-1).

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

| | Governmental Activities | | |
|---|---|---|---|
| | 2019 | 2018 | Net Change |
| **Assets** | | | |
| Current assets | $ 213,987,012 | $ 212,692,914 | $ 1,294,098 |
| Capital assets | 780,141,476 | 770,280,119 | 9,861,357 |
| **Total assets** | 994,128,488 | 982,973,033 | 11,155,455 |
| **Deferred outflows of resources** | 131,938,535 | 139,751,877 | (7,813,342) |
| **Liabilities** | | | |
| Current liabilities | 31,016,463 | 36,053,152 | (5,036,689) |
| Long-term liabilities | 211,348,103 | 214,688,624 | (3,340,521) |
| Net pension liability | 508,751,769 | 492,584,352 | 16,167,417 |
| **Total liabilities** | 751,116,335 | 743,326,128 | 7,790,207 |
| **Deferred inflows of resources** | 30,514,458 | 34,381,403 | (3,866,945) |
| **Net position** | | | |
| Net investment in capital assets | 737,192,645 | 712,922,529 | 24,270,116 |
| Restricted | 78,102,497 | 91,363,715 | (13,261,218) |
| Unrestricted | (470,858,912) | (459,268,865) | (11,590,047) |
| **Total net position** | $ 344,436,230 | $ 345,017,379 | $ (581,149) |

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

**Changes in net position, governmental activities.** The District's total revenues decreased 2.7% to $522.5 million (See Table A-2). The decrease is due primarily to $27.3 in state construction funds that were received in 2017-18.

The total cost of all programs and services decreased 6.8% to $523.1 million. The District's expenses are predominantly related to educating and caring for students, 71.9%. The purely administrative activities of the District accounted for just 4.7% of total costs. A significant contributor to the decrease in costs was staffing reductions necessitated by declining enrollment.

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

| | Governmental Activities | | |
|---|---|---|---|
| | **2019** | **2018** | **Net Change** |
| **Revenues** | | | |
| Program Revenues: | | | |
| Charges for services | $ 8,173,455 | $ 11,399,536 | $ (3,226,081) |
| Operating grants and contributions | 55,370,891 | 70,213,395 | (14,842,504) |
| Capital grants and contributions | - | 27,290,440 | (27,290,440) |
| General Revenues: | | | |
| Property taxes | 368,299,820 | 351,098,705 | 17,201,115 |
| Federal and state aid not restricted | 71,953,562 | 65,326,836 | 6,626,726 |
| Other general revenues | 18,679,051 | 11,613,201 | 7,065,850 |
| **Total Revenues** | 522,476,779 | 536,942,113 | (14,465,334) |
| **Expenses** | | | |
| Instruction-related | 375,872,849 | 410,548,342 | (34,675,493) |
| Pupil services | 55,927,863 | 54,872,373 | 1,055,490 |
| Administration | 24,474,128 | 26,247,773 | (1,773,645) |
| Plant services | 48,228,094 | 50,677,341 | (2,449,247) |
| All other activities | 18,554,994 | 19,024,960 | (469,966) |
| **Total Expenses** | 523,057,928 | 561,370,789 | (38,312,861) |
| Increase (decrease) in net position | $ (581,149) | $ (24,428,676) | $ 23,847,527 |
| **Total Net Position** | $ 344,436,230 | $ 345,017,379 | |

## FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed this year, its governmental funds reported a combined fund balance of $161.5 million, which is above last year's ending fund balance of $157.1 million. The primary cause of the increased fund balance is a large reduction in spending and a large increase in General Fund revenues.

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

| | Fund Balances | | | | |
|---|---|---|---|---|---|
| Fund | July 1, 2018 | Revenues | Expenditures | Other Sources and (Uses) | June 30, 2019 |
| General Fund | $ 67,751,351 | $ 535,642,790 | $ 514,093,091 | $ (1,056,319) | $ 88,244,731 |
| Child Development Fund | 541,539 | 5,909,561 | 5,661,327 | - | 789,773 |
| Cafeteria Fund | 5,178,317 | 11,243,709 | 12,566,842 | - | 3,855,184 |
| Deferred Maintenance Fund | 3,693,852 | 3,030,902 | 4,015,939 | - | 2,708,815 |
| Special Reserve Fund (Postemployment Benefits) | 80,948 | 1,667 | - | - | 82,615 |
| Building Fund | 438,090 | 3,790 | 441,880 | - | - |
| Capital Facilities Fund | 4,328,572 | 4,540,639 | 3,768,163 | - | 5,101,048 |
| Special Reserve Fund (Capital Outlay) | 45,188,275 | 6,260,733 | 11,562,007 | - | 39,887,001 |
| Capital Projects Fund for Blended Component Units | 25,192,660 | 404,543 | 10,248,313 | 597,200 | 15,946,090 |
| Bond Interest and Redemption Fund | 4,711,542 | 5,152,829 | 4,961,750 | - | 4,902,621 |
| | $ 157,105,146 | $ 572,191,163 | $ 567,319,312 | $ (459,119) | $ 161,517,878 |

### General Fund Budgetary Highlights

Over the course of the year, the District revised the annual operating budget several times. The major budget amendments fall into these categories:

- Revenues – increased by $28.7 million primarily to reflect federal and state budget actions.
- Salaries and benefits costs – increased $7.8 million to reflect revised cost estimates.
- Other non-personnel expenses – increased $3.9 million to revise operational cost estimates.

While the District's final budget for the General Fund anticipated that revenues would exceed expenditures by about $0.6 million, the actual results for the year show that revenues exceeded expenditures by roughly $21.5 million. Actual revenues were $21.6 million more than anticipated, and expenditures were $0.7 million more than budgeted. That amount consists primarily of STRS and PERS on-behalf contributions from the State that were not budgeted.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

By the end of 2018-19 the District had acquired $29.9 million in new capital assets, related to land, construction in progress, site improvements, and equipment purchases. (More detailed information about capital assets can be found in Note 6 to the financial statements). Total depreciation expense for the year was $20.0 million.

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

| | Governmental Activities | | |
|---|---|---|---|
| | **2019** | **2018** | **Net Change** |
| Land | $ 319,938,330 | $ 319,338,330 | $ 600,000 |
| Improvement of sites | 16,575,387 | 18,674,660 | (2,099,273) |
| Buildings | 336,401,517 | 346,577,838 | (10,176,321) |
| Equipment | 10,386,581 | 10,577,545 | (190,964) |
| Construction in progress | 96,839,661 | 75,111,746 | 21,727,915 |
| Total | $ 780,141,476 | $ 770,280,119 | $ 9,861,357 |

### Long-Term Debt

At year-end the District had $211.3 million in long-term debt other than pensions – a decrease of 1.6% from last year – as shown in Table A-5. (More detailed information about the District's long-term liabilities is presented in Note 7 to the financial statements).

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

| | Governmental Activities | | |
|---|---|---|---|
| | **2019** | **2018** | **Net Change** |
| General obligation bonds | $ 33,935,843 | $ 37,600,676 | $ (3,664,833) |
| Certificates of participation | 28,931,113 | 30,117,819 | (1,186,706) |
| Capital lease obligations | 869,873 | 963,567 | (93,694) |
| Compensated absences | 3,820,432 | 3,508,221 | 312,211 |
| Supplemental early retirement plan | 12,954,194 | 16,192,743 | (3,238,549) |
| Other postemployment benefits | 116,328,174 | 112,824,846 | 3,503,328 |
| Claims liability | 14,508,474 | 13,480,752 | 1,027,722 |
| Total | $ 211,348,103 | $ 214,688,624 | $ (3,340,521) |

## FACTORS BEARING ON THE DISTRICT'S FUTURE

The Legislature passed the final budget package on June 13, 2019. The Governor signed the *2019-20 Budget Act* and 15 other budget-related bills on June 27, 2019.

### Major Features of the 2019-20 Spending Plan

***Makes $5.9 Billion in Additional Unfunded Liability Payments***
Teachers, administrators, and other certificated employees of school districts earn pension benefits from the California State Teachers' Retirement System (CalSTRS). Other school district employees, such as clerical staff, also earn pension benefits administered by California Public Employees' Retirement System (CalPERS). The state and school districts each have full responsibility for their respective CalPERS' unfunded liabilities associated with their own employees. In the case of CalSTRS, the state and school districts share responsibility for the system's total unfunded liability (about one-third is the responsibility of the state and two-thirds of the districts).

The spending plan allocates $5.9 billion General Fund to pay down unfunded pension liabilities on behalf of both the state and school districts (some of which is counted toward the state's Proposition 2 debt payment requirements). In particular, the spending plan dedicates:

- ***$3.6 Billion to Address State's Unfunded Liabilities.*** The spending plan uses $2.5 billion in General Fund monies to pay down the state's CalPERS unfunded liability. The spending plan also devotes $1.1 billion General Fund to reduce the state's share of the CalSTRS unfunded liability, as part of the state's Proposition 2 debt payment requirements.
- ***$2.3 Billion to Address School Districts' Unfunded Liabilities.*** The spending plan also devotes $1.6 billion General Fund to reduce the school districts' share of the CalSTRS unfunded liability and $660 million General Fund to address the school districts' CalPERS unfunded liability.

### K-14 Education

***Provides a Few Notable Ongoing Proposition 98 Augmentations***
Under the spending plan, Proposition 98 funding for 2019-20 increases $2.9 billion (3.7 percent) from the revised 2018-19 level. The spending plan devotes the largest share of this increase—$2 billion—to school districts to cover changes in student attendance and provide a 3.26 percent cost-of-living adjustment (COLA) for the Local Control Funding Formula (general purpose per-student funding). The budget also provides two augmentations related to special education: (1) $493 million for school districts based on the number of three- and four-year old children identified with disabilities affecting their education and (2) $153 million for special education agencies with average or below average per-pupil funding rates.

***Pays a Portion of Districts' Pension Costs for the Next Two Years***
The spending plan also provides additional monies to school districts outside of the Proposition 98 funding requirement by paying a portion of districts' pension costs for the next two years. School districts' pension contribution rates for both CalPERS and CalSTRS have been rising and are set to continue increasing for at least the next few years. For CalSTRS, the budget provides $606 million for the state to pay a portion of districts' costs (reducing district contribution rates by about 1 percent of payroll in 2019-20 and 2020-21). Similarly, the budget provides $244 million for the state to cover a portion of districts' CalPERS costs (reducing district rates by about 1 percent of payroll in 2019-20 and 2020-21). Although district pension rates will continue to rise, the increases will be slower than previously projected.

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

All of these factors were considered in preparing the Capistrano Unified School District budget for the 2019-20 fiscal year.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact those listed below at Capistrano Unified School District, 33122 Valle Road, San Juan Capistrano, California, 92675:

Clark Hampton, Deputy Superintendent, Business and Support Services, 949-234-9211, cdhampton@ capousd.org and Philippa Townsend, Assistant Superintendent, Fiscal Services, 949-234-9316, pktownsend@ capousd.org.

**CAPISTRANO UNIFIED SCHOOL DISTRICT**
*Statement of Net Position*
*June 30, 2019*

| | Governmental Activities |
|---|---|
| **ASSETS** | |
| Cash | $ 152,626,006 |
| Investments | 29,955,020 |
| Accounts receivable | 31,092,098 |
| Prepaid expenses | 38,021 |
| Inventories | 275,867 |
| Capital assets: | |
| Non-depreciable capital assets | 416,777,991 |
| Depreciable capital assets | 760,080,532 |
| Less accumulated depreciation | (396,717,047) |
| Total assets | 994,128,488 |
| **DEFERRED OUTFLOWS OF RESOURCES** | |
| Deferred amounts on refunding | 627,401 |
| Deferred outflows related to OPEB | 2,030,437 |
| Deferred outflows related to pensions | 129,280,697 |
| Total deferred outflows of resources | 131,938,535 |
| **LIABILITIES** | |
| Accounts payable | 28,512,249 |
| Unearned revenue | 2,504,214 |
| Long-term liabilities: | |
| Portion due or payable within one year | 9,900,302 |
| Portion due or payable after one year | 201,447,801 |
| Net pension liability | 508,751,769 |
| Total liabilities | 751,116,335 |
| **DEFERRED INFLOWS OF RESOURCES** | |
| Deferred inflows related to pensions | 30,514,458 |
| **NET POSITION** | |
| Net investment in capital assets | 737,192,645 |
| Restricted for: | |
| Capital projects | 50,391,681 |
| Debt service | 4,902,747 |
| Categorical programs | 22,808,069 |
| Unrestricted | (470,858,912) |
| Total net position | $ 344,436,230 |

## CAPISTRANO UNIFIED SCHOOL DISTRICT

*Statement of Activities*

*For the Fiscal Year Ended June 30, 2019*

| Functions/Programs | Expenses | Program Revenues: Charges for Services | Program Revenues: Operating Grants and Contributions | Net Revenue (Expense) and Changes in Net Position: Governmental Activities |
|---|---|---|---|---|
| **Governmental Activities:** | | | | |
| Instruction | $ 323,550,345 | $ 349,729 | $ 30,180,420 | $ (293,020,196) |
| Instruction-Related Services: | | | | |
| Supervision of instruction | 14,667,276 | 71,927 | 6,566,895 | (8,028,454) |
| Instructional library, media and technology | 2,822,223 | - | 140,443 | (2,681,780) |
| School site administration | 34,833,005 | 56,598 | 39,134 | (34,737,273) |
| Pupil Support Services: | | | | |
| Home-to-school transportation | 12,799,469 | - | 56,222 | (12,743,247) |
| Food services | 11,826,010 | 4,546,795 | 6,070,636 | (1,208,579) |
| All other pupil services | 31,302,384 | 56,302 | 4,245,207 | (27,000,875) |
| General Administration Services: | | | | |
| Data processing services | 10,130,654 | 453 | (24,529) | (10,154,730) |
| Other general administration | 14,343,474 | 25,006 | 2,471,590 | (11,846,878) |
| Plant services | 48,228,094 | 1,567,204 | 1,033,486 | (45,627,404) |
| Ancillary services | 3,078,811 | - | (150,000) | (3,228,811) |
| Community services | 2,228 | - | - | (2,228) |
| Enterprise activities | (418,793) | - | - | 418,793 |
| Interest on long-term debt | 910,049 | - | - | (910,049) |
| Other outgo | 14,982,699 | 1,499,441 | 4,741,387 | (8,741,871) |
| Total Governmental Activities | $ 523,057,928 | $ 8,173,455 | $ 55,370,891 | (459,513,582) |

| | |
|---|---|
| **General Revenues:** | |
| Property taxes | 368,299,820 |
| Federal and state aid not restricted to specific purpose | 71,953,562 |
| Interest and investment earnings | 2,942,135 |
| Interagency revenues | 54,664 |
| Miscellaneous | 15,682,252 |
| Subtotal general revenues | 458,932,433 |
| Change in net position | (581,149) |
| Net position - July 1, 2018 | 345,017,379 |
| Net position - June 30, 2019 | $ 344,436,230 |

**CAPISTRANO UNIFIED SCHOOL DISTRICT**
*Balance Sheet – Governmental Funds*
*June 30, 2019*

| | General Fund | Special Reserve Fund for Capital Outlay Projects | Non-Major Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash | $ 92,074,485 | $ 26,570,455 | $ 12,302,825 | $ 130,947,765 |
| Investments | - | 12,006,243 | 17,948,777 | 29,955,020 |
| Accounts receivable | 23,042,749 | 5,698,698 | 1,841,298 | 30,582,745 |
| Due from other funds | 617,538 | 173 | 2,974,860 | 3,592,571 |
| Stores inventories | 117,531 | - | 158,336 | 275,867 |
| Prepaid expenditures | 38,021 | - | - | 38,021 |
| Total Assets | $ 115,890,324 | $ 44,275,569 | $ 35,226,096 | $ 195,391,989 |
| **LIABILITIES AND FUND BALANCES** | | | | |
| **Liabilities** | | | | |
| Accounts payable | $ 22,914,408 | $ 1,485,254 | $ 3,376,755 | $ 27,776,417 |
| Due to other funds | 338,060 | 2,903,314 | 352,106 | 3,593,480 |
| Unearned revenue | 1,601,695 | - | 902,519 | 2,504,214 |
| Total Liabilities | 24,854,163 | 4,388,568 | 4,631,380 | 33,874,111 |
| **Fund Balances** | | | | |
| Nonspendable | 330,552 | - | 171,086 | 501,638 |
| Restricted | 10,886,438 | 39,887,001 | 30,423,630 | 81,197,069 |
| Assigned | 28,953,787 | - | - | 28,953,787 |
| Unassigned | 50,865,384 | - | - | 50,865,384 |
| Total Fund Balances | 91,036,161 | 39,887,001 | 30,594,716 | 161,517,878 |
| Total Liabilities and Fund Balances | $ 115,890,324 | $ 44,275,569 | $ 35,226,096 | $ 195,391,989 |

## CAPISTRANO UNIFIED SCHOOL DISTRICT

*Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position*
*June 30, 2019*

| | | | |
|---|---|---|---|
| **Total fund balances - governmental funds** | | | $ 161,517,878 |
| 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 at historical cost: | 1,176,858,523 | |
| | Accumulated depreciation: | (396,717,047) | |
| | Net: | | 780,141,476 |
| In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred. The additional liability for unmatured interest owing at the end of the period was: | | | (332,477) |
| Deferred amounts on refunding represent amounts paid to an escrow agent in excess of the outstanding debt at the time of the payment for refunded bonds which have been defeased. In the government-wide statements it is recognized as a deferred outflow. The remaining deferred amounts on refunding at the end of the period were: | | | 627,401 |
| In governmental funds, only current liabilities are reported. In the statement of net position, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consist of: | | | |
| | General obligation bonds payable | 33,935,843 | |
| | Certificates of participation payable | 28,931,113 | |
| | Capital leases payable | 869,873 | |
| | Compensated absences payable | 3,820,432 | |
| | Supplemental early retirement plan | 12,954,194 | |
| | Other postemployment benefits | 116,328,174 | |
| | Total | | (196,839,629) |
| The net pension liability is not due and payable in the current reporting period, and therefore is not reported as a liability in the fund financial statements. | | | (508,751,769) |
| Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because internal service funds are presumed to operate for the benefit of governmental activities, assets and liabilities of internal service funds are reported with governmental activities in the statement of net position. Net position for internal service funds is: | | | 7,276,674 |
| 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 inflows and outflows relating to pensions for the period were: | | | |
| | Deferred outflows of resources | 129,280,697 | |
| | Deferred inflows of resources | (30,514,458) | |
| | Total | | 98,766,239 |
| In governmental funds, deferred outflows of resources relating to OPEB are not reported because they are applicable to future periods. In the statement of net position, deferred outflows of resources relating to OPEB are reported. Deferred outflows relating to OPEB for the period were: | | | 2,030,437 |
| **Total net position - governmental activities** | | | $ 344,436,230 |

**CAPISTRANO UNIFIED SCHOOL DISTRICT**

*Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds*

*For the Fiscal Year Ended June 30, 2019*

| | General Fund | Special Reserve Fund for Capital Outlay Projects | Non-Major Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|
| **REVENUES** | | | | |
| LCFF sources | $ 412,886,561 | $ - | $ - | $ 412,886,561 |
| Federal sources | 18,355,004 | - | 5,976,438 | 24,331,442 |
| Other state sources | 95,592,477 | - | 3,894,408 | 99,486,885 |
| Other local sources | 11,841,317 | 6,260,733 | 17,384,225 | 35,486,275 |
| Total Revenues | 538,675,359 | 6,260,733 | 27,255,071 | 572,191,163 |
| **EXPENDITURES** | | | | |
| Current: | | | | |
| Instruction | 331,051,264 | - | 3,683,498 | 334,734,762 |
| Instruction-Related Services: | | | | |
| Supervision of instruction | 14,569,274 | - | 692,520 | 15,261,794 |
| Instructional library, media and technology | 2,590,077 | - | - | 2,590,077 |
| School site administration | 35,605,065 | - | 638,539 | 36,243,604 |
| Pupil Support Services: | | | | |
| Home-to-school transportation | 12,412,742 | - | - | 12,412,742 |
| Food services | 17,964 | - | 11,622,071 | 11,640,035 |
| All other pupil services | 31,995,377 | - | 295,143 | 32,290,520 |
| Ancillary services | 3,338,050 | - | - | 3,338,050 |
| Community services | 2,228 | - | - | 2,228 |
| General Administration Services: | | | | |
| Data processing services | 9,477,540 | - | - | 9,477,540 |
| Other general administration | 13,447,628 | - | 599,692 | 14,047,320 |
| Transfers of indirect costs | (696,629) | - | 696,629 | - |
| Plant services | 44,896,768 | - | 76,923 | 44,973,691 |
| Capital outlay | 5,639,993 | 10,215,505 | 14,381,509 | 30,237,007 |
| Intergovernmental transfers | 13,636,197 | - | - | 13,636,197 |
| Debt service: | | | | |
| Principal | 93,694 | 1,165,000 | 2,750,034 | 4,008,728 |
| Interest | 31,798 | 181,502 | 2,211,717 | 2,425,017 |
| Total Expenditures | 518,109,030 | 11,562,007 | 37,648,275 | 567,319,312 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 20,566,329 | (5,301,274) | (10,393,204) | 4,871,851 |
| **OTHER FINANCING SOURCES (USES)** | | | | |
| Interfund transfers in | - | - | 860,230 | 860,230 |
| Interfund transfers out | (1,056,319) | - | (263,030) | (1,319,349) |
| Total Other Financing Sources and Uses | (1,056,319) | - | 597,200 | (459,119) |
| Net Change in Fund Balances | 19,510,010 | (5,301,274) | (9,796,004) | 4,412,732 |
| Fund Balances, July 1, 2018 | 71,526,151 | 45,188,275 | 40,390,720 | 157,105,146 |
| Fund Balances, June 30, 2019 | $ 91,036,161 | $ 39,887,001 | $ 30,594,716 | $ 161,517,878 |

**CAPISTRANO UNIFIED SCHOOL DISTRICT**

*Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities*

*For the Fiscal Year Ended June 30, 2019*

| | | | |
|---|---|---|---|
| **Total net change in fund balances - governmental funds** | | | $ 4,412,732 |
| Amounts reported for governmental *activities* in the statement of activities are different because: | | | |
| Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period was: | | | |
| | Expenditures for capital outlay | 29,891,801 | |
| | Depreciation expense | (20,030,444) | 9,861,357 |
| In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as a reduction of liabilities. Expenditures for repayment of the principal portion of long-term debt were: | | | 4,008,728 |
| Deferred amounts on refunding represent amounts paid to an escrow agent in excess of the outstanding debt at the time of the payment for refunded bonds which have been defeased. In governmental funds these charges are recognized as an expenditure. However, in the statement of activities these amounts are amortized over the shorter of the life of the refunded bonds or the refunding bonds. The difference between current year amounts and the current year amortization was: | | | (89,586) |
| In governmental funds, accreted interest on capital appreciation bonds is not recorded as an expenditure from current resources. In the government-wide statement of activities, however, this is recorded as interest expense for the period. Accreted interest additions less accreted interest paid during the year was: | | | 640,716 |
| In governmental funds, if debt is issued at a premium or at a discount, the premium or discount is recognized as an other financing source or an other financing use in the period it is incurred. In the government-wide statements, the premium or discount is amortized over the life of the debt. Amortization of premiums or discount for the period was: | | | 295,789 |
| In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period that it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period, was: | | | 352,014 |
| In the statement of activities, compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). | | | (312,211) |
| In the government-wide statements, expenses must be accrued in connection with any liabilities incurred during the period that are not expected to be liquidated with current financial resources, including early retirement incentives. This year, expenses incurred for such obligations were: | | | 3,238,549 |
| In government funds, pension costs are recognized when employer contributions are made. In the statement of activities, pension costs are recognized on the accrual basis. This year, the difference between accrual-basis pension costs and actual employer contributions was: | | | (21,093,520) |
| In government funds, OPEB costs are recognized when employer contributions are made. In the statement of activities, OPEB costs are recognized on the accrual basis. This year, the difference between accrual-basis OPEB costs and actual employer contributions was: | | | (2,434,036) |
| The internal service fund is used by management to charge the cost of self-insurance activities. The net revenue (expense) of the internal service fund is reported with governmental activities. | | | 538,319 |
| **Change in net position of governmental activities** | | | $ (581,149) |

**CAPISTRANO UNIFIED SCHOOL DISTRICT**
*Statement of Net Position – Proprietary Fund*
*June 30, 2019*

| | | Governmental Activities |
|---|---|---|
| | | Internal Service Funds |
| **ASSETS** | | |
| **Curret Assets** | | |
| Cash and cash equivalents | $ | 21,678,241 |
| Accounts receivable | | 509,352 |
| Due from other funds | | 298,661 |
| Total Assets | | 22,486,254 |
| **LIABILITIES** | | |
| **Current Liabilities** | | |
| Accrued liabilities | | 403,354 |
| Due to other funds | | 297,752 |
| Total current liabilities | | 701,106 |
| **Non-Current Liabilities** | | |
| Claims liability | | 14,508,474 |
| Total Liabilities | | 15,209,580 |
| **NET POSITION** | | |
| Restricted | $ | 7,276,674 |

| | Governmental Activities |
|---|---|
| | Internal Service Funds |
| **OPERATING REVENUES** | |
| STRS/PERS on-behalf contributions | $ 21,995 |
| Charges to other funds | 64,387,444 |
| All other fees and contracts | 156,075 |
| Other local revenues | 828 |
| Total operating revenues | 64,566,342 |
| **OPERATING EXPENSES** | |
| Salaries and benefits | 535,384 |
| Supplies and materials | 4,674 |
| Services and other operating expenses | 63,905,668 |
| Total operating expenses | 64,445,726 |
| Operating Income (Loss) | 120,616 |
| **NON-OPERATING REVENUES** | |
| Interest income | 417,703 |
| Change in net position | 538,319 |
| Net position, July 1, 2018 | 6,738,355 |
| Net position, June 30, 2019 | $ 7,276,674 |

**CAPISTRANO UNIFIED SCHOOL DISTRICT**
*Statement of Cash Flows – Proprietary Fund*
*For the Fiscal Year Ended June 30, 2019*

| | Governmental Activities<br>Internal Service Funds |
|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | |
| Cash received from assessments made to other funds | $ 65,092,958 |
| Cash received from all other sources | 156,075 |
| Cash payments for payroll, insurance and operating costs | (63,289,641) |
| Net cash provided (used) by operating activities | 1,959,392 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | |
| Interest received | 402,889 |
| Net increase (decrease) in cash and cash equivalents | 2,362,281 |
| Cash, July 1, 2018 | 19,315,960 |
| Cash, June 30, 2019 | $ 21,678,241 |
| **Reconciliation of operating income (loss) to net cash provided (used) by operating activities:** | |
| Operating income (loss) | $ 120,616 |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | |
| Changes in assets and liabilities: | |
| (Increase) decrease in accounts receivable | (127,257) |
| (Increase) decrease in due from other funds | 831,943 |
| Increase (decrease) in accounts payable | 113,586 |
| Increase (decrease) in due to other funds | (7,218) |
| Increase (decrease) in claims liability | 1,027,722 |
| Net cash provided (used) by operating activities | $ 1,959,392 |

**CAPISTRANO UNIFIED SCHOOL DISTRICT**
*Statement of Fiduciary Net Position*
*June 30, 2019*

| | Agency Funds | | |
|---|---|---|---|
| | Student Body Funds | Debt Service Fund for Blended Component Units | Totals |
| **Assets** | | | |
| Cash | $ 5,827,754 | $ - | $ 5,827,754 |
| Investments | - | 22,226,736 | 22,226,736 |
| Accounts receivable | - | 36,236 | 36,236 |
| **Total Assets** | $ 5,827,754 | $ 22,262,972 | $ 28,090,726 |
| **Liabilities** | | | |
| Accounts payable | $ 3,079 | $ - | $ 3,079 |
| Due to bondholders | - | 22,262,972 | 22,262,972 |
| Due to student groups | 5,824,675 | - | 5,824,675 |
| **Total Liabilities** | $ 5,827,754 | $ 22,262,972 | $ 28,090,726 |

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Capistrano Unified School District (the "District") accounts for its financial transactions in accordance with the policies and procedures of the California Department of Education's *California School Accounting Manual*. The accounting policies of the District conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. The following is a summary of the more significant policies:

**A. Reporting Entity**

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

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District, in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete.

For financial reporting purposes, the component units have a financial and operational relationship which meets the reporting entity definition criteria of the Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus – An Amendment of GASB Statements No. 14 and No. 34*, and thus are included in the financial statements using the blended presentation method as if they were part of the District's operations because the Board of Trustees of the component units is essentially the same as the Board of Trustees of the District and because their purpose is to finance the construction of facilities to be used for the direct benefit of the District.

The Capistrano USD Financing Authority (the Authority) and Capistrano USD Financing Corporation (the Corporation) financial activity are presented in the financial statements as the Debt Service Fund. Certificates of participation and other debt issued by the Authority and the Corporation are included as long-term liabilities in the government-wide financial statements. Individually prepared financial statements are not prepared for the Authority or the Corporation.

The Capistrano Unified School District Community Facilities Districts (CFDs) financial activity is presented in the financial statements as the Capital Projects Fund for Blended Component Units and in the Fiduciary Funds Statement as the Debt Service Fund for Special Tax Bonds. Special Tax Bonds issued by the CFDs are not included in the long-term obligations of the *Statement of Net Position* as they are not obligations of the District. Individually prepared financial statements are available for the CFDs through the Business Office.

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

## B. Basis of Presentation, Basis of Accounting

### 1. Basis of Presentation

**Government-Wide Financial Statements**
The statement of net position and the statement of activities display information about the primary government (the District) and its component units. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

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

**Fund Financial Statements**
The fund financial statements provide information about the District's funds, including its fiduciary funds (and blended component units). Separate statements for each fund category - *governmental*, *proprietary*, and *fiduciary* - are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

**Major Governmental Funds**
The District maintains the following major governmental funds:

**General Fund:** This is the chief operating fund for the District. It is used to account for the ordinary operations of the District. All transactions except those accounted for in another fund are accounted for in this fund. The District also maintains an Adult Education Fund, a Deferred Maintenance Fund, and a Special Reserve Fund for Postemployment Benefits. These funds do not currently meet the definition of special revenue funds as they are not primarily composed of restricted or committed revenue sources. Because these funds do not meet the definition of special revenue funds under GASB 54, the activity in those funds is being reported within the General Fund.

**Special Reserve Fund for Capital Outlay Projects:** This fund exists primarily to provide for the accumulation of general fund moneys for capital outlay purposes (*Education Code* Section 42840). This fund may also be used to account for any other revenues specifically for capital projects that are not restricted to fund 21, 25, 30, 35, or 49.

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

**B. Basis of Presentation, Basis of Accounting (continued)**

**1. Basis of Presentation (continued)**

**Non-Major Governmental Funds**
The District maintains the following non-major governmental funds:

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

**Charter Schools Special Revenue Fund:** This fund may be used by authorizing the District to account separately for the operating activities of District-operated charter schools that would otherwise be reported in the authorizing District's general fund.

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

**Cafeteria Fund:** This fund is used to account separately for federal, state, and local resources to operate the food service program (*Education Code* sections 38090 and 38093).

**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 and other capital assets (other than those financed by proprietary funds and trust funds).

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

**Capital Facilities Fund:** This fund is used to primarily account separately for moneys received from fees levied on development projects as a condition of approval (*Education Code* sections 17620-17626 and *Government Code* Section 65995 et seq.).

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

**Capital Projects Fund for Blended Component Units:** This fund is used to account for capital projects financed by Mello-Roos Community Facilities Districts and similar entities that are considered blended component units of the District under generally accepted accounting principles (GAAP).

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

**B. Basis of Presentation, Basis of Accounting (continued)**

**1. Basis of Presentation (continued)**

**Non-Major Governmental Funds (continued)**

**Debt Service Funds:** Debt service funds are established to account for the accumulation of resources for and the payment of principal and interest on general long-term debt.

**Bond Interest and Redemption Fund:** This fund is used for the repayment of bonds issued for the District (*Education Code* sections 15125-15262).

**Debt Service Fund:** This fund is used for the accumulation of resources for and the retirement of principal and interest on general long-term debt.

**Proprietary Funds**
Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows. Proprietary funds are classified as enterprise or internal service. The District has the following proprietary fund:

**Internal Service Funds:** These funds are used to account for services rendered on a cost-reimbursement basis within the District. The District operates workers' compensation and property and liability insurance programs that are accounted for in the Internal Service Fund. In addition, the District's health and welfare benefit programs are accounted for in the Internal Service Fund.

**Self-Insurance Fund**: Self-insurance funds are used to separate moneys received for self-insurance activities from other operating funds in the District. Separate funds may be established for each type of self-insurance activity, such as workers' compensation, health and welfare, and deductible property loss (*Education Code* Section 17566).

**Fiduciary Funds**
Fiduciary funds are used to account for assets held in a trustee or agent capacity for others that cannot be used to support the District's own programs. The key distinction between trust and agency funds is that trust funds are subject to a trust agreement that affects the degree of management involvement and the length of time that the resources are held. The District maintains the following fiduciary funds:

**Agency Funds:** The District maintains a separate agency fund for each school that operates an Associated Student Body (ASB) Fund, whether it is organized or not.

**Debt Service Fund for Special Tax Bonds:** This fund is used to account for the accumulation of resources for, and the repayment, of Community Facility District bonds, interest and related costs.

**2. Measurement Focus, Basis of Accounting**
The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resource or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

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

**B. Basis of Presentation, Basis of Accounting (continued)**

**2. Measurement Focus, Basis of Accounting (continued)**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities for the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the District's proprietary funds and various other functions of the District. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

The agency fund has no measurement focus and utilizes the accrual basis of accounting for reporting its assets and liabilities.

**3. Revenues - Exchange and Non-Exchange Transactions**

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

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

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

**C. Budgetary Data**
The budgetary process is prescribed by provisions of the California *Education Code* and requires the Board of Trustees to hold a public hearing and adopt an operating budget no later than July 1 of each year. The District Board of Trustees satisfied these requirements. The adopted budget is subject to amendment throughout the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption with the legal restriction that expenditures cannot exceed appropriations by major object account.

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for. For budget purposes, on behalf payments have not been included as revenue and expenditures as required under generally accepted accounting principles.

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

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

**1. Cash and Cash Equivalents**
The District considers cash and cash equivalents to be cash on hand and demand deposits. In addition, because the Treasury Pool is sufficiently liquid to permit withdrawal of cash at any time without prior notice or penalty, equity in the pool is also deemed to be a cash equivalent.

**2. Inventories**
Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

**3. Capital Assets**
Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets, donated works of art and similar items, and capital assets received in a service concession arrangement are reported at acquisition value rather than fair value. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

| Description | Estimated Lives |
|---|---|
| Buildings | 20-50 years |
| Improvements/Infrastructure | 5-50 years |
| Equipment | 5-20 years |

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

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

**4. Unearned Revenue**

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

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

**5. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time.

**6. Compensated Absences**

The liability for compensated absences reported in the government-wide statements consists of unpaid, accumulated vacation leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

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

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

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

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

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

**9. Fund Balances**
The fund balance for governmental funds is reported in classifications based on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

**Nonspendable:** Fund balance is reported as nonspendable when the resources cannot be spent because they are either in a nonspendable form or legally or contractually required to be maintained intact. Resources in nonspendable form include inventories and prepaid assets.

**Restricted:** Fund balance is reported as restricted when the constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provision or by enabling legislation.

**Committed:** The District's highest decision-making level of authority rests with the District's Board. Fund balance is reported as committed when the Board passes a resolution that places specified constraints on how resources may be used. The Board can modify or rescind a commitment of resources through passage of a new resolution.

**Assigned:** Resources that are constrained by the District's intent to use them for a specific purpose, but are neither restricted nor committed, are reported as assigned fund balance. Intent may be expressed by either the Board, committees (such as budget or finance), or officials to which the Board has delegated authority.

**Unassigned:** Unassigned fund balance represents fund balance that has not been restricted, committed, or assigned and may be utilized by the District for any purpose. When expenditures are incurred, and both restricted and unrestricted resources are available, it is the District's policy to use restricted resources first, then unrestricted resources in the order of committed, assigned, and then unassigned, as they are needed.

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

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

**10. Net Position**

Net position is classified into three components: net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

- **Net investment in capital assets -** This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

- **Restricted -** This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

- **Unrestricted net position -** This component of net position consists of net position that does not meet the definition of "net investment in capital assets" or "restricted".

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

**F. Minimum Fund Balance Policy**

This Fund Balance Policy establishes the procedures for reporting unrestricted fund balance in the General Fund financial statements. Certain commitments and assignments of fund balance will help ensure that there will be adequate financial resources to protect the District against unforeseen circumstances and events such as revenue shortfalls and unanticipated expenditures. The policy also authorizes and directs the Chief Financial Officer to prepare financial reports which accurately categorize fund balance as per Governmental Accounting Standards Board (GASB) No. 54, Fund Balance Reporting and Governmental Fund Type Definitions.

The District's minimum reserve standard is 2% as per the recommended level for districts with more than 30,000 ADA (California Department of Education) or not less than two months of General Fund operating expenditures, or up to 17% of General Fund expenditures and other financing uses.

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

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

**G. Property Tax Calendar**

The County is responsible for the assessment, collection, and apportionment of property taxes for all jurisdictions including the schools and special districts within the County. The Board of Supervisors levies property taxes as of September 1 on property values assessed on July 1. Secured property tax payments are due in two equal installments. The first is generally due November 1 and is delinquent with penalties on December 10, and the second is generally due on February 1 and is delinquent with penalties on April 10. Secured property taxes become a lien on the property on January 1.

**H. Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reported period. Actual results could differ from those estimates.

**I. New GASB Pronouncements**

During the 2018-19 fiscal year, the following GASB Pronouncements became effective:

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

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

   The District has implemented the provisions of this Statement as of June 30, 2019.

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

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

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

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

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

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

   The District has implemented the provisions of this Statement as of June 30, 2019.

**J. Future Accounting Pronouncements**

Other GASB pronouncements, which will be effective in future periods, are as follows:

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

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

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

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

**J. Future Accounting Pronouncements (continued)**

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

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

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

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

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

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

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

**J. Future Accounting Pronouncements (continued)**

4. In August 2018, the GASB issued Statement No. 90, *Majority Equity Interests-An Amendment of GASB Statements No. 14 and No. 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

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

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

   The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

5. In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

   This Statement also addresses arrangements – often characterized as leases – that are associated with conduit debt obligations. In those arrangements, capital assets are constructed or acquired with the proceeds of a conduit debt obligation and used by third-party obligors in the course of their activities.

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

**J. Future Accounting Pronouncements (continued)**

5. (continued)
Payments from third-party obligors are intended to cover and coincide with debt service payments. During those arrangements, issuers retain the titles to the capital assets. Those titles may or may not pass to the obligors at the end of the arrangements.

   This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period.

   The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged.

**NOTE 2 – CASH AND INVESTMENTS**

Cash and investments at June 30, 2019, are reported at fair value and consisted of the following:

| | Governmental Activities | | | |
|---|---|---|---|---|
| | Governmental Funds | Proprietary Fund | Total | Fiduciary Funds |
| Pooled Funds: | | | | |
| Cash in County Treasury | $ 130,748,182 | $ 20,998,241 | $ 151,746,423 | $ - |
| Deposits: | | | | |
| Cash on hand and in banks | 11,833 | - | 11,833 | 5,827,754 |
| Cash in revolving fund | 187,750 | 680,000 | 867,750 | - |
| Total Deposits | 199,583 | 680,000 | 879,583 | 5,827,754 |
| Total Cash | $ 130,947,765 | $ 21,678,241 | $ 152,626,006 | $ 5,827,754 |
| Investments: | | | | |
| U.S. Bank First American Treasury Obligations | $ 29,955,020 | $ - | $ 29,955,020 | $ 22,226,736 |
| Total Investments | $ 29,955,020 | $ - | $ 29,955,020 | $ 22,226,736 |

**Pooled Funds**
In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the County Treasury. The County pools and invests the cash. These pooled funds are carried at cost which approximates fair value. Interest earned is deposited annually to participating funds. Any investment losses are proportionately shared by all funds in the pool.

Because the District's deposits are maintained in a recognized pooled investment fund under the care of a third party and the District's share of the pool does not consist of specific, identifiable investment securities owned by the District, no disclosure of the individual deposits and investments or related custodial credit risk classifications is required.

**NOTE 2 – CASH AND INVESTMENTS (continued)**

**Pooled Funds (continued)**
In accordance with applicable state laws, the County Treasurer may invest in derivative securities with the State of California. However, at June 30, 2019, the County Treasurer has represented that the Pooled Investment Fund contained no derivatives or other investments with similar risk profiles.

**Custodial Credit Risk – Deposits**
Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. Cash balances held in banks are insured up to $250,000 by the Federal Depository Insurance Corporation (FDIC) and are collateralized by the respective financial institutions. In addition, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit).

The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits.

As of June 30, 2019, nearly $5.6 million of the District's bank balance was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agency, but not in the name of the District.

**Investments - Interest Rate Risk**
The District's investment policy limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District's investment policy limits investment purchases to investments with a term not to exceed three years. Investments purchased with maturity terms greater than three years require approval by the Board of Trustees. Investments purchased with maturities greater than one year require written approval by the Superintendent prior to commitment. Maturities of investments held at June 30, 2019, consist of the following:

| | | | Maturity | | | |
|---|---|---|---|---|---|---|
| | Cost Basis | Fair Value | Less Than One Year | One Year Through Five Years | Over Five Years | Fair Value Measurement |
| Investment maturities: | | | | | | |
| U.S. Bank First American Treasury Obligations | $ 52,181,756 | $ 52,181,756 | $ 52,181,756 | $ - | $ - | Level 1 |
| Total Investments | $ 52,181,756 | $ 52,181,756 | $ 52,181,756 | $ - | $ - | |

**Investments - Credit Risk**
The District's investment policy limits investment choices to obligations of local, state and federal agencies, commercial paper, certificates of deposit, repurchase agreements, corporate notes, banker acceptances, and other securities allowed by State Government Code Section 53600. At June 30, 2019, all investments represented governmental securities which were issued, registered and held by the District's agent in the District's name.

**Investments - Concentration of Credit Risk**
The District does not place limits on the amount it may invest in any one issuer. At June 30, 2019, the District had the following investments that represents more than five percent of the District's net investments.

| | |
|---|---|
| U.S. Bank First American Treasury Obligations | 100.0% |

## NOTE 2 – CASH AND INVESTMENTS (continued)

### Fair Value Measurements

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

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

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

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

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

All assets have been valued using a market approach, with quoted market prices.

## NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2019, consisted of the following:

| | Governmental Activities | | | | | |
|---|---|---|---|---|---|---|
| | General Fund | Special Reserve Fund for Capital Outlay | Non-Major Governmental Funds | Total Governmental Funds | Self-Insurance Funds | Fiduciary Funds |
| Federal Government: | | | | | | |
| Categorical aid programs | $ 12,034,086 | $ - | $ 772,652 | $ 12,806,738 | $ - | $ - |
| State Government: | | | | | | |
| LCFF Sources | 838,769 | - | - | 838,769 | - | - |
| Special Education | 2,728,005 | - | - | 2,728,005 | - | - |
| Lottery | 2,302,167 | - | - | 2,302,167 | - | - |
| Categorical aid programs | 3,989,123 | - | 873,418 | 4,862,541 | - | - |
| Local: | | | | | | |
| Interest | 183,109 | 50,000 | 29,991 | 263,100 | 42,410 | - |
| Other local | 967,490 | 5,648,698 | 165,237 | 6,781,425 | 466,942 | 36,236 |
| Total | $ 23,042,749 | $ 5,698,698 | $ 1,841,298 | $ 30,582,745 | $ 509,352 | $ 36,236 |

## NOTE 4 – INTERFUND TRANSACTIONS

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

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

| | Due From Other Funds | | | | |
|---|---|---|---|---|---|
| | General Fund | Special Reserve Fund for Capital Outlay Projects | Non-Major Governmental Funds | Self-Insurance Fund | Total |
| General Fund | $ - | $ - | $ 41,036 | $ 297,024 | $ 338,060 |
| Special Reserve Fund for Capital Outlay | - | - | 2,903,314 | - | 2,903,314 |
| Non-Major Governmental Funds | 319,786 | 173 | 30,510 | 1,637 | 352,106 |
| Self-Insurance Fund | 297,752 | - | - | - | 297,752 |
| Total | $ 617,538 | $ 173 | $ 2,974,860 | $ 298,661 | $ 3,891,232 |

| | |
|---|---|
| Due to General Fund from Child Development Fund for indirect costs | $ 248,871 |
| Due to General Fund from Cafeteria Fund for fuel, labor, and indirect costs | 70,915 |
| Due to General Fund From Self-Insurance Fund for workers' compensation benefits | 297,592 |
| Due to General Fund From Self-Insurance Fund for healthcare benefits | 136 |
| Due to General Fund From Self-Insurance Fund for property and liability benefits | 24 |
| Due to Child Development Fund from General Fund for miscellaneous costs | 20,325 |
| Due to Cafeteria Fund from General Fund for outstanding lunch debt and catering | 20,678 |
| Due to Capital Facilities Fund from General Fund for miscellaneous costs | 33 |
| Due to Capital Facilities Fund from Building Fund for construction expenditures | 30,510 |
| Due to Capital Facilities Fund from Special Reserve Fund for Capital Outlay for construction expenditures | 2,903,314 |
| Due to Special Reserve Fund for Capital Outlay from County School Facilities Fund for cost reimbursements | 173 |
| Due to Self-Insurance Fund from General Fund for workers' compensation benefits | 296,221 |
| Due to Self-Insurance Fund from General Fund for healthcare benefits | 519 |
| Due to Self Insurance Fund from General Fund for property and liability costs | 284 |
| Due to Self-Insurance Fund from Child Development Fund for workers' compensation benefits | 1,637 |
| | $ 3,891,232 |

### B. Transfers To/From Other Funds

Transfers to/from other funds for the year ended June 30, 2019, consisted of the following:

| | |
|---|---|
| Transfer from the General Fund to the Debt Service Fund for Blended Component Units to pay CFD debt service | $ 1,056,319 |
| Transfer from the Capital Projects Fund to the Debt Service Fund for Blended Component Units to pay CFD debt service | 263,030 |
| Total interfund transfers out | $ 1,319,349 |
| | |
| Transfer from the Debt Service Fund to the Capital Projects Fund for Blended Component Units to close accounts | $ 860,230 |

Because the Debt Service Fund for Blended Component Units is presented in these financial statements as a fiduciary fund, the transfers to and from that fund do not appear in the Governmental Funds financial statements.

## NOTE 5 – FUND BALANCES

At June 30, 2019, fund balances of the District's governmental funds were classified as follows:

| | General Fund | Special Reserve Fund for Capital Outlay Projects | Non-Major Governmental Funds | Total |
|---|---|---|---|---|
| Nonspendable: | | | | |
| Revolving cash | $ 175,000 | $ - | $ 12,750 | $ 187,750 |
| Stores inventories | 117,531 | - | 158,336 | 275,867 |
| Prepaid expenditures | 38,021 | - | - | 38,021 |
| Total Nonspendable | 330,552 | - | 171,086 | 501,638 |
| Restricted: | | | | |
| Categorical programs | 10,886,438 | - | 789,773 | 11,676,211 |
| Child nutrition program | - | - | 3,684,098 | 3,684,098 |
| Capital projects | - | 39,887,001 | 21,047,138 | 60,934,139 |
| Debt service | - | - | 4,902,621 | 4,902,621 |
| Total Restricted | 10,886,438 | 39,887,001 | 30,423,630 | 81,197,069 |
| Assigned: | | | | |
| One-time money | 19,884,069 | - | - | 19,884,069 |
| Technology refresh | 52,585 | - | - | 52,585 |
| LCFF supplemental carryover | 360,689 | - | - | 360,689 |
| Library abatement carryover | 178,957 | - | - | 178,957 |
| Teacher development carryover | 988,520 | - | - | 988,520 |
| Site supply carrover | 1,469,269 | - | - | 1,469,269 |
| Ed division carryover | 1,442,774 | - | - | 1,442,774 |
| Gift carryover | 1,785,494 | - | - | 1,785,494 |
| Deferred maintenance program | 2,708,815 | - | - | 2,708,815 |
| Other assignments | 82,615 | - | - | 82,615 |
| Total Assigned | 28,953,787 | - | - | 28,953,787 |
| Unassigned: | | | | |
| Reserve for economic uncertainties | 17,800,000 | - | - | 17,800,000 |
| Remaining unassigned balances | 33,065,384 | - | - | 33,065,384 |
| Total Unassigned | 50,865,384 | - | - | 50,865,384 |
| Total | $ 91,036,161 | $ 39,887,001 | $ 30,594,716 | $ 161,517,878 |

**NOTE 6 – CAPITAL ASSETS AND DEPRECIATION**

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

| | Balance, July 1, 2018 | Additions | Deletions | Balance, June 30, 2019 |
|---|---|---|---|---|
| Governmental Activities: | | | | |
| Capital assets not being depreciated | | | | |
| Land | $ 319,338,330 | $ 600,000 | $ - | $ 319,938,330 |
| Construction in progress | 75,111,746 | 24,107,219 | 2,379,304 | 96,839,661 |
| Total capital assets not being depreciated | 394,450,076 | 24,707,219 | 2,379,304 | 416,777,991 |
| Capital assets being depreciated | | | | |
| Site improvements | 41,985,466 | - | - | 41,985,466 |
| Buildings | 673,453,825 | 6,099,993 | - | 679,553,818 |
| Furniture and equipment | 37,077,355 | 1,463,893 | - | 38,541,248 |
| Total capital assets being depreciated | 752,516,646 | 7,563,886 | - | 760,080,532 |
| Less accumulated depreciation: | | | | |
| Site improvements | (23,310,806) | (2,099,273) | - | (25,410,079) |
| Buildings | (326,875,987) | (16,276,314) | - | (343,152,301) |
| Furniture and equipment | (26,499,810) | (1,654,857) | - | (28,154,667) |
| Total accumulated depreciation | (376,686,603) | (20,030,444) | - | (396,717,047) |
| Governmental Activities Capital Assets, net | $ 770,280,119 | $ 12,240,661 | $ 2,379,304 | $ 780,141,476 |

Depreciation expense was charged to governmental activities as follows:

| | |
|---|---|
| Governmental Activities: | |
| Instruction | $ 18,728,466 |
| Home-to-school transportation | 500,761 |
| Data processing | 200,304 |
| Plant services | 600,913 |
| Total | $ 20,030,444 |

## NOTE 7 – LONG-TERM DEBT OTHER THAN PENSIONS

Changes in long-term debt for the fiscal year ended June 30, 2019, were as follows:

| | Balance, July 1, 2018 | Additions | Deductions | Balance, June 30, 2019 | Amount Due Within One Year |
|---|---|---|---|---|---|
| General Obligation Bonds: | | | | | |
| Principal repayments | $ 24,498,787 | $ - | $ 2,750,034 | $ 21,748,753 | $ 2,822,868 |
| Accreted interest component | 10,886,382 | 936,097 | 1,576,813 | 10,245,666 | 1,666,310 |
| Unamortized issuance premium | 2,215,507 | - | 274,083 | 1,941,424 | 274,083 |
| Total - Bonds | 37,600,676 | 936,097 | 4,600,930 | 33,935,843 | 4,763,261 |
| Certificates of Participation: | | | | | |
| Principal repayments- 2012 Certificates | 8,800,000 | - | 1,165,000 | 7,635,000 | 1,185,000 |
| Principal repayments- 2017 Certificates | 21,155,000 | - | - | 21,155,000 | 595,000 |
| Unamortized issuance premium | 162,819 | - | 21,706 | 141,113 | 21,706 |
| Total - Certificates of participation | 30,117,819 | - | 1,186,706 | 28,931,113 | 1,801,706 |
| Capital Lease Obligations | 963,567 | - | 93,694 | 869,873 | 96,786 |
| Compensated Absences | 3,508,221 | 312,211 | - | 3,820,432 | - |
| Supplemental Early Retirement Plan | 16,192,743 | - | 3,238,549 | 12,954,194 | 3,238,549 |
| Other Postemployment Benefits | 112,824,846 | 9,850,803 | 6,347,475 | 116,328,174 | - |
| Claims Liability | 13,480,752 | 6,847,659 | 5,819,937 | 14,508,474 | - |
| Totals | $ 214,688,624 | $ 17,946,770 | $ 21,287,291 | $ 211,348,103 | $ 9,900,302 |

Payments on the General Obligation Bonds are made by the Bond Interest and Redemption Fund with local property tax revenues. Payments on the Certificates of Participation are made by the Debt Service Fund. Capital leases are paid by the General Fund. The compensated absences and OPEB will be paid by the fund for which the employee worked. The supplemental early retirement plan will be paid from the General Fund. The claims liability will be paid by the Internal Service Fund.

### A. General Obligation Bonds

#### 1999 General Obligation Bonds, Series B

In February 2001, the Capistrano Unified School District issued both current and capital appreciation, 1999 General Obligation Bonds, Series B in the amount of $29,999,930, with the value of the capital appreciation bonds accreting $22,550,070, and an aggregate debt service balance of $52,550,000. The bonds have a final maturity occurring on August 1, 2025, with interest rates ranging from 4.00 to 5.10 percent. The bonds were issued for the acquisition, construction, and repair of schools.

#### Prior-Year Defeasance of Debt

In prior years, the District defeased certain general obligation bonds by placing the proceeds of new refunding bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. At June 30, 2019, none of the defeased bonds remain outstanding.

The difference between the reacquisition price and the net carrying amount of the old debt is reported as a deferred outflow of resources and recognized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter. At June 30, 2019, deferred amounts on refunding were $338,181.

**NOTE 7 – LONG-TERM DEBT OTHER THAN PENSIONS (continued)**

**A. General Obligation Bonds (continued)**

Below is a schedule of bonds issued and outstanding as of June 30, 2019.

| Series | Issue Date | Maturity Date | Interest Rate | Original Issue | Balance, July 1, 2018 | Issuances | Redemptions | Balance, June 30, 2019 |
|---|---|---|---|---|---|---|---|---|
| 1999, Series B | 3/14/2001 | 8/1/2025 | 4.0% - 5.1% | $ 29,999,930 | $ 7,408,787 | $ - | $ 1,040,034 | $ 6,368,753 |
| 2012 Ref. | 12/19/2012 | 8/1/2026 | 3.0% - 4.0% | 27,455,000 | 17,090,000 | - | 1,710,000 | 15,380,000 |
| | | | | | $ 24,498,787 | $ - | $ 2,750,034 | $ 21,748,753 |

The annual requirements to amortize general obligation bonds payable are as follows:

| Fiscal Year | Principal | Interest | Total |
|---|---|---|---|
| 2019-20 | $ 2,822,868 | $ 2,245,210 | $ 5,068,078 |
| 2020-21 | 2,912,489 | 2,261,411 | 5,173,900 |
| 2021-22 | 2,998,152 | 2,288,123 | 5,286,275 |
| 2022-23 | 3,108,571 | 2,293,516 | 5,402,087 |
| 2023-24 | 3,230,335 | 2,294,499 | 5,524,834 |
| 2024-27 | 6,676,338 | 4,629,883 | 11,306,221 |
| Total | $ 21,748,753 | $ 16,012,642 | $ 37,761,395 |

**B. Certificates of Participation**

**2012 Refunding Certificates of Participation**

In November 2012, the Capistrano Unified School District issued $19,635,000 of 2012 Refunding Certificates of Participation, pursuant to a lease agreement between the Corporation and the District. Under the agreement, the District will lease certain District property to the Corporation and will lease the property back from the Corporation. The current interest certificates have a final maturity occurring on August 1, 2025, with interest yields of 1.00 to 3.00 percent. The certificates were issued at an aggregate price of $19,319,921 (representing the principal amount of $19,635,000 plus an original issue premium of $282,182 less cost of issuance of $597,261).

Proceeds from the bonds were to be used to advance refund the District's outstanding 2002 Certificates of Participation and pay costs associated with the issuance of the certificates. The prepayment for the refunding occurred December 1, 2012.

At June 30, 2019, the principal balance outstanding on the 2012 Refunding Certificates of Participation was $7,635,000.

**NOTE 7 – LONG-TERM DEBT OTHER THAN PENSIONS (continued)**

**B. Certificates of Participation (continued)**

**2017 Certificates of Participation**
On December 21, 2017, the Capistrano Unified School District issued $21,155,000 of Certificates of Participation, pursuant to a lease agreement between the Facilities Corporation and the District. The certificates were issued as Series A in the aggregate principal amount of $21,040,000 and Series B in the aggregate principal amount of $115,000. The Certificates mature between December 1, 2019 and 2043 and carry coupon interest rates between 2.15% and 4.02%.

Proceeds from the Certificates are being used to (i) finance various solar photovoltaic projects of the District and (ii) pay certain delivery costs of the Certificates, including premiums for a municipal bond insurance policy and debt service reserve insurance policy in lieu of cash funding a reserve fund.

The District has designated the Series A Certificates as "New Clean Renewable Energy Bonds" ("New CREBs") under Section 54C of the Tax Code and irrevocably elected under Tax Code Section 6431(f)(2) to receive a direct subsidy from the U.S. Treasury equal to the lesser of (i) the amount of interest payable with respect to the Series A Certificates or (ii) 70 percent of the amount of interest which would be payable with respect to the Series A Certificates if the interest rates were determined at the applicable credit rate determined by the U.S. Treasury under Tax Code Section 54(A)(b)(3).

At June 30, 2019, the principal balance outstanding on the 2017 Certificates of Participation was $21,155,000.

**Prior-Year Defeasance of Debt**
In prior years, the District defeased certain certificates of participation by placing the proceeds of new refunding certificates in an irrevocable trust to provide for all future debt service payments on the old certificates. Accordingly, the trust account assets and the liability for the defeased certificates are not included in the District's financial statements. At June 30, 2019, none of the defeased certificates remain outstanding.

The difference between the reacquisition price and the net carrying amount of the old debt is reported as a deferred outflow of resources and recognized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter. At June 30, 2019, deferred amounts on refunding were $289,220.

The annual requirements to amortize all certificates are as follows:

| Fiscal Year | Principal | Interest | Total |
|---|---|---|---|
| 2019-20 | $ 1,780,000 | $ 897,963 | $ 2,677,963 |
| 2020-21 | 1,850,000 | 860,249 | 2,710,249 |
| 2021-22 | 1,865,000 | 819,166 | 2,684,166 |
| 2022-23 | 1,935,000 | 774,430 | 2,709,430 |
| 2023-24 | 1,995,000 | 725,941 | 2,720,941 |
| 2024-29 | 5,400,000 | 3,030,617 | 8,430,617 |
| 2029-34 | 3,680,000 | 2,392,580 | 6,072,580 |
| 2034-39 | 4,975,000 | 1,576,398 | 6,551,398 |
| 2039-44 | 5,310,000 | 462,300 | 5,772,300 |
| Total | $ 28,790,000 | $ 11,539,644 | $ 40,329,644 |

**NOTE 7 – LONG-TERM DEBT OTHER THAN PENSIONS (continued)**

**C. Capital Leases**

The District has entered into an agreement to lease buses valued at more than $640,000. The agreement is, in substance, a purchase (capital lease) and is reported as a capital lease obligation. The District's liability on lease agreements with options to purchase is summarized below:

| Fiscal Year | Principal | Interest | Total |
|---|---|---|---|
| 2019-20 | $ 96,786 | $ 28,706 | $ 125,492 |
| 2020-21 | 99,980 | 25,512 | 125,492 |
| 2021-22 | 103,279 | 22,213 | 125,492 |
| 2022-23 | 106,688 | 18,804 | 125,492 |
| 2023-24 | 110,208 | 15,284 | 125,492 |
| 2024-27 | 352,932 | 23,544 | 376,476 |
| | $ 869,873 | $ 134,063 | $ 1,003,936 |

**D. Supplemental Early Retirement Plan**

The District has established a supplemental early retirement incentive program (SERP) whereby certain qualified employees may retire early and receive a portion of their salary paid out as an annuity. The total future payments owing at June 30, 2019, for these obligations are shown below.

| Fiscal Year | Payment |
|---|---|
| 2019-20 | $ 3,238,549 |
| 2020-21 | 3,238,548 |
| 2021-22 | 3,238,549 |
| 2022-23 | 3,238,548 |
| | $ 12,954,194 |

**E. Non-Obligatory Debt**

Non-obligatory debt relates to debt issuances by the Community Facilities Districts as authorized by the Mello- Roos Community Facilities Act of 1982 as amended, and the Mark-Roos Local Bond Pooling Act of 1985, and are payable from special taxes levied on property within the Community Facilities Districts according to a methodology approved by the voters within the District. Neither the faith and credit nor taxing power of the District is pledged to the payment of the bonds. Reserves have been established from the bond proceeds to meet delinquencies should they occur. If delinquencies occur beyond the amounts held in those reserves, the District has no duty to pay the delinquency out of any available funds of the District. The District acts solely as an agent for those paying taxes levied and the bondholders, and may initiate foreclosure proceedings. Special assessment debt of $224,418,863 as of June 30, 2019, does not represent debt of the District and, as such, does not appear in the accompanying basic financial statements.

**NOTE 7 – LONG-TERM DEBT OTHER THAN PENSIONS (continued)**

**F. Other Postemployment Benefits (OPEB) Liability**

For the fiscal year ended June 30, 2019, the District reported total OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense for the following plans:

| Pension Plan | Net OPEB Liability | Deferred Outflows of Resources | Deferred Inflows of Resources | OPEB Expense |
|---|---|---|---|---|
| District Plan | $ 113,840,682 | $ 2,030,437 | $ - | $ 8,781,511 |
| MPP Program | 2,487,492 | - | - | (243,776) |
| Total | $ 116,328,174 | $ 2,030,437 | $ - | $ 8,537,735 |

The details of each plan are as follows:

**District Plan**

***Plan description***

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

***Benefits provided***

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

**CUEA**

- Retirees age 55 with at least 10 years of consecutive service are offered a District subsidy for retiree only medical coverage based on the following table:

| Years of Service at Retirement | District Subsidy of Retiree Only Coverage |
|---|---|
| 10 | 50% |
| 11 | 55% |
| 12 | 60% |
| 13 | 65% |
| 14 | 70% |
| 15 | 75% |
| 16 | 80% |
| 17 | 85% |
| 18 | 90% |
| 19 | 95% |
| 20 or more | 100% |

- Retirees may elect to cover any dependents; however, the full cost of such coverage is the responsibility of the retiree.
- Retirees may elect dental coverage through the District; however, the full cost of such coverage is the responsibility of the retiree.
- Benefits cease at age 65.

**NOTE 7 – LONG-TERM DEBT OTHER THAN PENSIONS (continued)**

**F. Other Postemployment Benefits (OPEB) Liability (continued)**

**District Plan (continued)**

***Benefits Provided (continued)***

**CSEA**

- Retirees age 53 with at least 10 years of consecutive service are offered a District subsidy for retiree only medical coverage based on the following table:

| Years of Service at Retirement | District Subsidy of Retiree Only Coverage |
|---|---|
| 10 | 50% |
| 11 | 55% |
| 12 | 60% |
| 13 | 65% |
| 14 | 70% |
| 15 | 75% |
| 16 | 80% |
| 17 | 85% |
| 18 | 90% |
| 19 | 95% |
| 20 or more | 100% |

- Retirees may elect to cover any dependents; however, the full cost of such coverage is the responsibility of the retiree.
- Retirees may elect dental coverage through the District; however, the full cost of such coverage is the responsibility of the retiree.
- Retirees age 50 with at least 10 years of consecutive service are eligible to retire; however, the retiree will pay the full cost of coverage until reaching age 53, when the District subsidy will begin.
- Benefits cease at age 65.

***Employees covered by benefit terms***
At July 1, 2017, the following employees were covered by the benefit terms:

| | |
|---|---|
| Inactive employees or beneficiaries currently receiving benefit payments | 256 |
| Active employees | 3,198 |
| Total | 3,454 |

**NOTE 7 – LONG-TERM DEBT OTHER THAN PENSIONS (continued)**

**F. Other Postemployment Benefits (OPEB) Liability (continued)**

**District Plan (continued)**

***Total OPEB Liability***
The District's total OPEB liability of $113,840,682 for the Plan was measured as of June 30, 2019, and was determined by an actuarial valuation as of July 1, 2017.

***Actuarial Assumptions and Other Inputs***
The total OPEB liability in the July 1, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

| | |
|---|---|
| Valuation Date | July 1, 2017 |
| Inflation | 2.98% |
| Salary increases | 2.75%, average, including inflation |
| Healthcare cost trend rates | 7.00%, grading down to an ultimate rate of 4.50% |
| Retirees' share of benefit-related costs | Varies, depending on years of service |

***Discount Rate***
In accordance with GASB 75, the discount rate as of June 30, 2018 and June 30, 2019 is the 20-year municipal bond yield. As of June 30, 2018, a rate of 2.98% was used. As of June 30, 2019, a rate of 2.79% was used.

Rationale: As prescribed by GASB for an unfunded OPEB, the discount rate was developed using 20-year municipal bond yield. The S&P Municipal Bond 20-Year High Grade Rate Index was used for this purpose.

***Mortality Rates***
Based on the June 2013 Society of Actuaries Study entitled "Health Care Costs – From Birth to Death". Pre-age 65 morbidity rates were based on the HMO and PPO costs from Chart 3.

Rationale: Due to the size of the covered population, this assumption was based on industry tables with consideration for the current demographics of the covered population. This assumption continues to be reasonable for the 2018-2019 fiscal year valuation.

**NOTE 7 – LONG-TERM DEBT OTHER THAN PENSIONS (continued)**

**F. Other Postemployment Benefits (OPEB) Liability (continued)**

**District Plan (continued)**

**Changes in the Total OPEB Liability**

| | | Total OPEB Liability |
|---|---|---|
| **Balance at July 1, 2018** | $ | 110,093,577 |
| **Changes for the year:** | | |
| Service cost | | 5,093,384 |
| Interest | | 3,342,294 |
| Changes in assumptions | | 1,415,125 |
| Benefit payments | | (6,103,698) |
| Net changes | | 3,747,105 |
| **Balance at June 30, 2019** | $ | 113,840,682 |

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

| Discount Rate | | OPEB Liability |
|---|---|---|
| 1% decrease (1.79%) | $ | 121,455,887 |
| Current discount rate (2.79%) | $ | 113,840,682 |
| 1% increase (3.79%) | $ | 106,526,097 |

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

| Healthcare Cost Trend Rate | | OPEB Liability |
|---|---|---|
| 1% decrease (6.00% grading down to 3.50%) | $ | 102,466,436 |
| Current rate (7.00% grading down to 4.50%) | $ | 113,840,682 |
| 1% increase (8.00% grading down to 5.50%) | $ | 127,019,346 |

**NOTE 7 – LONG-TERM DEBT OTHER THAN PENSIONS (continued)**

**F. Other Postemployment Benefits (OPEB) Liability (continued)**

**District Plan (continued)**

***OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB***
For the year ended June 30, 2019, the District recognized OPEB expense of $8,781,511. In addition, at June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Changes in assumptions | $ 2,030,437 | $ - |
| Total | $ 2,030,437 | $ - |

The deferred outflows of resources related to changes of assumptions will be amortized over five years and will be recognized in OPEB expense as follows:

| Year Ended June 30: | Deferred Outflows of Resources |
|---|---|
| 2020 | $ 345,833 |
| 2021 | 345,833 |
| 2022 | 345,833 |
| 2023 | 345,833 |
| 2024 | 345,833 |
| Thereafter | 301,272 |
| Total | $ 2,030,437 |

**Medicare Premium Payment (MPP) Program**

***Plan Description***
The MPP Program is a cost-sharing multiple-employer other postemployment benefit (OPEB) plan established pursuant to Chapter 1032, Statutes of 2000 (SB 1435). CalSTRS administers the MPP Program through the Teachers' Health Benefit Fund (THBF).

A full description of the MPP Program regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2017 annual actuarial valuation report, Medicare Premium Payment Program. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at: http://www.calstrs.com/actuarial-financial-and-investor-information.

***Benefits Provided***
The MPP Program pays Medicare Part A premiums and Medicare Parts A and B late enrollment surcharges for eligible members of the DB Program who were retired or began receiving a disability allowance prior to July 1, 2012, and were not eligible for premium-free Medicare Part A. The MPP Program is closed to new entrants as members who retire on or after July 1, 2012, are not eligible for coverage under the MPP Program.

**NOTE 7 – LONG-TERM DEBT OTHER THAN PENSIONS (continued)**

**F. Other Postemployment Benefits (OPEB) Liability (continued)**

**Medicare Premium Payment (MPP) Program (continued)**

***Benefits Provided (continued)***
As of June 30, 2018, 5,984 retirees participated in the MPP Program. The number of retired members who will participate in the program in the future is unknown because eligibility cannot be predetermined.

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

***Total OPEB Liability***
At June 30, 2019, the District reported a liability of $2,487,492 for its proportionate share of the net OPEB liability for the MPP Program. The total OPEB liability for the MPP Program as of June 30, 2018, was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2017, and rolling forward the total OPEB liability to June 30, 2018. The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating school districts and the State, actuarially determined. The District's proportions of the net OPEB liability for the two most recent measurement periods were:

| | Percentage Share of MPP Program | | |
|---|---|---|---|
| | **Fiscal Year Ending June 30, 2019** | **Fiscal Year Ending June 30, 2018** | **Change Increase/ (Decrease)** |
| Measurement Date | June 30, 2018 | June 30, 2017 | |
| Proportion of the Net OPEB Liability | 0.649867% | 0.649208% | 0.000660% |

For the year ended June 30, 2019, the District reported OPEB expense of $(243,776).

***Actuarial Assumptions and Other Inputs***
The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

| | |
|---|---|
| Measurement Date | June 30, 2018 |
| Valuation Date | June 30, 2017 |
| Experience Study | July 1, 2010, through June 30, 2015 |
| Actuarial Cost Method | Entry age normal |
| Investment Rate of Return | 3.87% |
| Healthcare Cost Trend Rates | 3.70% for Medicare Part A, and 4.10% for Medicare Part B |

**NOTE 7 – LONG-TERM DEBT OTHER THAN PENSIONS (continued)**

**F. Other Postemployment Benefits (OPEB) Liability (continued)**

**Medicare Premium Payment (MPP) Program (continued)**

***Actuarial Assumptions and Other Inputs (continued)***
In addition, assumptions were made about future participation (enrollment) into the MPP Program because CalSTRS is unable to determine which members not currently participating meet all eligibility criteria for enrollment in the future. Assumed enrollment rates were derived based on past experience and are stratified by age with the probability of enrollment diminishing as the members' age increases. This estimated enrollment rate was then applied to the population of members who may meet criteria necessary for eligibility and are not currently enrolled in the MPP Program. Based on this, the estimated number of future enrollments used in the financial reporting valuation was 459, or an average of 0.27 percent of the potentially eligible population (171,593).

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

The MPP Program is funded on a pay-as-you-go basis with contributions generally being made at the same time and in the same amount as benefit payments and expenses coming due. Any funds within the MPP Program as of June 30, 2018, were to manage differences between estimated and actual amounts to be paid and were invested in the Surplus Money Investment Fund, which is a pooled investment program administered by the State Treasurer.

***Discount Rate***
The discount rate used to measure the total OPEB liability was 3.87%. The MPP Program is funded on a pay-as-you-go basis, and under the pay-as-you-go method, the OPEB plan's fiduciary net position was not projected to be sufficient to make projected future benefit payments. Therefore, a discount rate of 3.87 percent, which is The Bond Buyer's 20-Bond GO Index from Bondbuyer.com as of June 30, 2018, was applied to all periods of projected benefit payments to measure the total OPEB liability. The discount rate increased 0.29 percent from 3.58 percent as of June 30, 2017.

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

| Discount Rate | MPP OPEB Liability |
|---:|---:|
| 1% decrease (2.87%) | $ 2,751,285 |
| Current discount rate (3.87%) | $ 2,487,492 |
| 1% increase (4.87%) | $ 2,249,296 |

**NOTE 7 – LONG-TERM DEBT OTHER THAN PENSIONS (continued)**

**F. Other Postemployment Benefits (OPEB) Liability (continued)**

**Medicare Premium Payment (MPP) Program (continued)**

***Sensitivity of the District's proportionate share of the net OPEB liability to changes in the Medicare costs trend rates***

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

| Medicare Cost Trend Rates | MPP OPEB Liability |
|---|---|
| 1% decrease (2.7% Part A and 3.1% Part B) | $ 2,268,337 |
| Current rate (3.7% Part A and 4.1% Part B) | $ 2,487,492 |
| 1% increase (4.7% Part A and 5.1% Part B) | $ 2,723,179 |

**NOTE 8 – PENSION PLANS**

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

For the fiscal year ended June 30, 2019, the District reported net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense for each of the above plans as follows:

| Pension Plan | Net Pension Liability | Deferred Outflows of Resources | Deferred Inflows of Resources | Pension Expense |
|---|---|---|---|---|
| CalSTRS | $ 379,812,952 | $ 95,033,479 | $ 30,470,230 | $ 50,308,340 |
| CalPERS | 128,938,817 | 34,247,218 | 44,228 | 24,938,232 |
| Total | $ 508,751,769 | $ 129,280,697 | $ 30,514,458 | $ 75,246,572 |

The details of each plan are as follows:

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

**Plan Description**

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

**NOTE 8 – PENSION PLANS (continued)**

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

**Plan Description (continued)**
A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2017, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at: http://www.calstrs.com/actuarial-financial-and-investor-information.

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

The STRP is comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program, and Replacement Benefits Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs. CalSTRS also uses plan assets to defray reasonable expenses of administering the STRP. Although CalSTRS is the administrator of the STRP, the state is the sponsor of the STRP and obligor of the trust. In addition, the state is both an employer and nonemployer contributing entity to the STRP. The District contributes exclusively to the STRP Defined Benefit Program, thus disclosures are not included for the other plans.

The STRP provisions and benefits in effect at June 30, 2019, are summarized as follows:

| | **STRP Defined Benefit Program** | |
|---|---|---|
| | On or before | On or after |
| Hire Date | December 31, 2012 | January 1, 2013 |
| Benefit Formula | 2% at 60 | 2% at 62 |
| Benefit Vesting Schedule | 5 years of service | 5 years of service |
| Benefit Payments | Monthly for life | Monthly for life |
| Retirement Age | 60 | 62 |
| Monthly Benefits as a Percentage of Eligible Compensation | 2.0%-2.4% | 2.0%-2.4% |
| Required Member Contribution Rate | 10.25% | 10.205% |
| Required Employer Contribution Rate | 16.28% | 16.25% |
| Required State Contribution Rate | 9.828% | 9.828% |

**NOTE 8 – PENSION PLANS (continued)**

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

**Contributions**
Required member District and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1% of applicable member earnings phased over a seven year period.

The contribution rates for each program for the year ended June 30, 2019, are presented above and the District's total contributions were $34,850,729.

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**
At June 30, 2019, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related state support and the total portion of the net pension liability that was associated with the District were as follows:

| | | |
|---|---|---|
| District's proportionate share of net pension liability | $ | 379,812,952 |
| State's proportionate share of the net pension liability associated with the District | | 217,460,679 |
| Total | $ | 597,273,631 |

The net pension liability was measured as of June 30, 2018. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. The District's proportions of the net pension liability for the two most recent measurement periods were:

| | Percentage Share of Risk Pool | | |
|---|---|---|---|
| | **Fiscal Year Ending June 30, 2019** | **Fiscal Year Ending June 30, 2018** | **Change Increase/ (Decrease)** |
| Measurement Date | June 30, 2018 | June 30, 2017 | |
| Proportion of the Net Pension Liability | 0.413258% | 0.407898% | 0.005360% |

**NOTE 8 – PENSION PLANS (continued)**

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

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

For the year ended June 30, 2019, the District recognized pension expense of $50,308,340. In addition, the District recognized pension expense and revenue of $7,415,364 for support provided by the State. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Pension contributions subsequent to measurement date | $ 34,850,729 | $ - |
| Net change in proportionate share of net pension liability | - | 10,328,039 |
| Difference between projected and actual earnings on pension plan investments | - | 14,625,198 |
| Changes of assumptions | 59,004,965 | - |
| Differences between expected and actual experience | 1,177,785 | 5,516,993 |
| Total | $ 95,033,479 | $ 30,470,230 |

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

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

| Year Ended June 30, | Deferred Outflows/(Inflows) of Resources |
|---|---|
| 2020 | $ 12,469,282 |
| 2021 | 6,985,350 |
| 2022 | (2,994,829) |
| 2023 | 6,848,974 |
| 2024 | 8,642,088 |
| Thereafter | (2,250,743) |
| Total | $ 29,700,122 |

**NOTE 8 – PENSION PLANS (continued)**

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

**Actuarial Methods and Assumptions**

The total pension liability for the STRP was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2017, and rolling forward the total pension liability to June 30, 2018. In determining the total pension liability, the financial reporting actuarial valuation used the following actuarial methods and assumptions:

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

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

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

For each future valuation, CalSTRS' consulting actuary reviews the return assumption for reasonableness based on the most current capital market assumptions. Best estimates of expected 20-year geometrically linked real rates of return and the assumed asset allocation for each major asset class as of June 30, 2019, are summarized in the following table:

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

**NOTE 8 – PENSION PLANS (continued)**

## A. California State Teachers' Retirement System (CalSTRS) (continued)

### Discount Rate

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

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

| Discount Rate | Net Pension Liability |
|---|---|
| 1% decrease (6.10%) | $ 556,381,529 |
| Current discount rate (7.10%) | 379,812,952 |
| 1% increase (8.10%) | 233,420,468 |

### On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS pursuant to Sections 22954 and 22955.1 of the Education Code and Public Resources Code Section 6217.5. In addition, for the 2018-19 fiscal year, California Senate Bill No. 90 (SB 90) was signed into law on June 27, 2019, and appropriated supplemental contributions of $2,246,000,000. Under accounting principles generally accepted in the United States of America, these amounts are reported as revenues and expenditures in the fund financial statements. The total amount recognized by the District for its proportionate share of the State's on-behalf contributions is $34,669,518.

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

### Plan Description

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

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2017 annual actuarial valuation report, Schools Pool Accounting Report. This report and CalPERS audited financial information are publically available reports that can be found on the CalPERS website under Forms and Publications at: https://www.calpers.ca.gov/page/employers/actuarial-services/gasb.

**NOTE 8 – PENSION PLANS (continued)**

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

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

The CalPERS provisions and benefits in effect at June 30, 2019, are summarized as follows:

| | **Schools Pool (CalPERS)** | |
|---|---|---|
| | On or before | On or after |
| Hire Date | December 31, 2012 | January 1, 2013 |
| Benefit Formula | 2% at 55 | 2% at 62 |
| Benefit Vesting Schedule | 5 years of service | 5 years of service |
| Benefit Payments | Monthly for life | Monthly for life |
| Retirement Age | 55 | 62 |
| Monthly Benefits as a Percentage of Eligible Compensation | 1.1%-2.5% | 1.0%-2.5% |
| Required Employee Contribution Rate | 7.00% | 6.50% |
| Required Employer Contribution Rate | 18.062% | 18.062% |

**Contributions**
Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contribution rates are expressed as a percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2019, are presented above and the total District contributions were $11,862,901.

**NOTE 8 – PENSION PLANS (continued)**

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

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**
As of June 30, 2019, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling $128,938,817. The net pension liability was measured as of June 30, 2018. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportions of the net pension liability for the two most recent measurement periods were:

| | Percentage Share of Risk Pool | | |
|---|---|---|---|
| | **Fiscal Year Ending June 30, 2019** | **Fiscal Year Ending June 30, 2018** | **Change Increase/ (Decrease)** |
| Measurement Date | June 30, 2018 | June 30, 2017 | |
| Proportion of the Net Pension Liability | 0.483584% | 0.483231% | 0.000354% |

For the year ended June 30, 2019, the District recognized pension expense of $24,938,232. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Pension contributions subsequent to measurement date | $ 11,862,901 | $ - |
| Net change in proportionate share of net pension liability | - | 44,228 |
| Difference between projected and actual earnings on pension plan investments | 1,057,588 | - |
| Changes of assumptions | 12,873,972 | - |
| Differences between expected and actual experience | 8,452,757 | - |
| Total | $ 34,247,218 | $ 44,228 |

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

**NOTE 8 – PENSION PLANS (continued)**

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

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)**
Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year Ended June 30, | Deferred Outflows/(Inflows) of Resources |
|---|---|
| 2020 | $ 13,998,601 |
| 2021 | 10,007,741 |
| 2022 | (921,986) |
| 2023 | (744,268) |
| 2024 | - |
| Thereafter | - |
| Total | $ 22,340,088 |

**Actuarial Methods and Assumptions**
Total pension liability for the Schools Pool was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2017, and rolling forward the total pension liability to June 30, 2018. The financial reporting actuarial valuation as of June 30, 2017, used the following methods and assumptions, applied to all prior periods included in the measurement:

| | |
|---|---|
| Valuation Date | June 30, 2017 |
| Experience Study | 1997-2015 |
| Actuarial Cost Method | Entry age normal |
| Discount Rate | 7.15% |
| Consumer Price of Inflation | 2.75% |
| Wage Growth | Varies by entry age and service |

Post-retirement mortality rates are based on CalPERS' experience and include 15 years of projected ongoing mortality improvement using 90 percent of Scale MP 2016 published by the Society of Actuaries.

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

**NOTE 8 – PENSION PLANS (continued)**

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

**Actuarial Methods and Assumptions (continued)**
The target asset allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

| Asset Class | Assumed Asset Allocation | Real Return Years 1-10 | Real Return Years 11+ |
|---|---|---|---|
| Global Equity | 50% | 4.80% | 5.98% |
| Fixed Income | 28% | 1.00% | 2.62% |
| Inflation Assets | 0% | 0.77% | 1.81% |
| Private Equity | 8% | 6.30% | 7.23% |
| Real Assets | 13% | 3.75% | 4.93% |
| Liquidity | 1% | 0.00% | (0.92%) |

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

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

| Discount Rate | Net Pension Liability |
|---|---|
| 1% decrease (6.15%) | $ 187,728,752 |
| Current discount rate (7.15%) | 128,938,817 |
| 1% increase (8.15%) | 80,164,150 |

**On-Behalf Payments**
The State of California normally makes no contributions to CalPERS on behalf of the District. However, for the 2018-19 fiscal year, California Senate Bill No. 90 (SB 90) was signed into law on June 27, 2019, and appropriated contributions of $904,000,000. Under accounting principles generally accepted in the United States of America, these amounts are reported as revenues and expenditures in the fund financial statements. The total amount recognized by the District for its proportionate share of the State's on-behalf contributions is $4,371,603.

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

**NOTE 8 – PENSION PLANS (continued)**

**D. Payables to the Pension Plans**

At June 30, 2019, the District reported payables of $3,310,036 and $700,983 for the outstanding amount of legally required contributions to the CalSTRS and CalPERS pension plans, respectively, for the fiscal year ended June 30, 2019.

**NOTE 9 – JOINT VENTURES**

The District is a member of ASCIP public entity risk pool, College and Career Advantage (CCA), Orange County Special Education Legal Alliance (OCSELA), and Ed Tech joint powers authorities (JPA's). Payments for the District's regional occupational program and special education legal services are paid to the JPA's. The District pays an annual premium to ASCIP for its property and liability and excess liability coverage. The relationships between the District, the pools, and the JPA's are such that they are not component units of the District for financial reporting purposes. These entities have budgeting and financial reporting requirements independent of member units and their financial statements are not presented.

**NOTE 10 – COMMITMENTS AND CONTINGENCIES**

**A. State and Federal Allowances, Awards, and Grants**

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

**B. Construction Commitments**

As of June 30, 2019, the District had commitments with respect to unfinished capital projects of approximately $23.9 million.

**C. Litigation**

The District is involved in certain legal matters that arose out of the normal course of business. The District has not accrued a liability for any potential litigation against it because it does not meet the criteria to be considered a liability at June 30, 2019.

**NOTE 11 – RISK MANAGEMENT**

**Property and Liability**
The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2016, the District contracted with Alliance of Schools Cooperative Insurance Programs (ASCIP) for property and liability insurance coverage. Excess liability coverage is obtained through participation in Schools Excess Liability Fund (SELF) (through ASCIP). Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year. In addition, property and liability claims for which the District retains the risk of loss (claims below the District's retained limits), are administered by the Self- Insurance Fund.

**Workers' Compensation**
Beginning in 2009, the District has established a fund to self-insure itself for workers' compensation coverage. The workers' compensation experience of the District was calculated and applied to a premium rate, which was utilized to charge funds for the administration of the program. Excess liability coverage for workers' compensation claims is provided through the purchase of commercial insurance.

**Employee Medical Benefits**
The District has contracted with the Metropolitan Employee Benefit Association (MEBA), an employee/employer benefits trust to provide employee medical and surgical benefits. MEBA obtains benefit programs on behalf of the District through the purchase of commercial insurance. Rates are set through an annual calculation process. The District pays a monthly contribution, which is placed in a common fund from which claim payments are made for all participating districts.

**Claims Liabilities**
The District records an estimated liability for indemnity torts and other claims against the District. Claims liabilities are based on estimates of the ultimate cost of reported claims (including future claim adjustment expenses) and an estimate for claims incurred, but not reported based on historical experience.

**Unpaid Claims Liabilities**
The District establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represent the changes in approximate aggregate liabilities for the District from July 1, 2017 to June 30, 2019:

| | Workers' Compensation | Property and Liability | Total |
|---|---|---|---|
| Liability Balance, July 1, 2017 | $ 11,772,234 | $ 870,981 | $ 12,643,215 |
| Claims and changes in estimates | 767,019 | 70,518 | 837,537 |
| Liability Balance, June 30, 2018 | 12,539,253 | 941,499 | 13,480,752 |
| Claims and changes in estimates | 6,337,409 | 510,250 | 6,847,659 |
| Claims payments | (5,251,024) | (568,913) | (5,819,937) |
| Liability Balance, June 30, 2019 | $ 13,625,638 | $ 882,836 | $ 14,508,474 |
| | | | |
| Assets available to pay claims at June 30, 2019 | $ 15,840,588 | $ 1,722,558 | $ 17,563,146 |

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# *Required Supplementary Information*

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## CAPISTRANO UNIFIED SCHOOL DISTRICT

*Budgetary Comparison Schedule – General Fund*
*For the Fiscal Year Ended June 30, 2019*

| | Budgeted Amounts | | Actual | Variance with Final Budget - |
|---|---|---|---|---|
| | Original | Final | (Budgetary Basis) | Pos (Neg) |
| **Revenues** | | | | |
| LCFF Sources | $ 405,439,289 | $ 409,978,599 | $ 409,886,561 | $ (92,038) |
| Federal | 16,148,289 | 19,607,262 | 18,355,004 | (1,252,258) |
| Other State | 58,516,202 | 73,776,553 | 95,592,477 | 21,815,924 |
| Other Local | 5,265,842 | 10,704,666 | 11,808,748 | 1,104,082 |
| Total Revenues | 485,369,622 | 514,067,080 | 535,642,790 | 21,575,710 |
| **Expenditures** | | | | |
| Current: | | | | |
| Certificated Salaries | 212,287,385 | 219,788,855 | 215,821,629 | 3,967,226 |
| Classified Salaries | 77,856,781 | 73,888,457 | 73,837,608 | 50,849 |
| Employee Benefits | 128,445,342 | 132,726,701 | 149,882,739 | (17,156,038) |
| Books and Supplies | 21,884,242 | 25,974,847 | 15,824,404 | 10,150,443 |
| Services and Other Operating Expenditures | 42,889,463 | 42,997,039 | 42,774,055 | 222,984 |
| Transfers of indirect costs | (524,840) | (612,375) | (696,629) | 84,254 |
| Capital Outlay | 4,293,219 | 3,006,907 | 2,887,596 | 119,311 |
| Other Outgo | 14,609,299 | 15,668,380 | 13,761,689 | 1,906,691 |
| Total Expenditures | 501,740,891 | 513,438,811 | 514,093,091 | (654,280) |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (16,371,269) | 628,269 | 21,549,699 | 20,921,430 |
| **Other Financing Sources and Uses** | | | | |
| Interfund Transfers Out | - | - | (1,056,319) | (1,056,319) |
| Total Other Financing Sources and Uses | - | - | (1,056,319) | (1,056,319) |
| Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses | (16,371,269) | 628,269 | 20,493,380 | 19,865,111 |
| Fund Balance, July 1, 2018 | 60,045,213 | 67,751,351 | 67,751,351 | - |
| Fund Balance, June 30, 2019 | $ 43,673,944 | $ 68,379,620 | $ 88,244,731 | $ 19,865,111 |

**Other Fund Balances included in the Statement of Revenues, Expenditures and Changes in Fund Balances:**

| | |
|---|---|
| Adult Education Fund | - |
| Deferred Maintenance Fund | 2,708,815 |
| Special Revenue Fund for Postemployment Benefits | 82,615 |
| **Total reported General Fund balance on the Statement of Revenues, Expenditures and Changes in Fund Balances:** | $ 91,036,161 |

**CAPISTRANO UNIFIED SCHOOL DISTRICT**

*Schedule of Proportionate Share of the Net Pension Liability*

*For the Fiscal Year Ended June 30, 2019*

*Last Ten Fiscal Years**

| | 2017-18 | 2016-17 | 2015-16 | 2014-15 | 2013-14 |
|---|---|---|---|---|---|
| **CalSTRS** | | | | | |
| District's proportion of the net pension liability | 0.4133% | 0.4079% | 0.4388% | 0.4440% | 0.4240% |
| District's proportionate share of the net pension liability | $ 379,812,952 | $ 377,224,419 | $ 355,067,590 | $ 299,046,251 | $ 247,568,061 |
| State's proportionate share of the net pension liability associated with the District | 217,460,679 | 223,162,780 | 202,163,405 | 158,162,077 | 149,493,785 |
| Totals | $ 597,273,631 | $ 600,387,199 | $ 557,230,995 | $ 457,208,328 | $ 397,061,846 |
| District's covered-employee payroll | $ 219,929,640 | $ 215,595,715 | $ 218,549,935 | $ 203,198,773 | $ 190,051,460 |
| District's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 172.70% | 174.97% | 162.47% | 147.17% | 130.26% |
| Plan fiduciary net position as a percentage of the total pension liability | 71% | 69% | 70% | 74% | 77% |
| **CalPERS** | | | | | |
| District's proportion of the net pension liability | 0.4836% | 0.4832% | 0.5021% | 0.4863% | 0.4712% |
| District's proportionate share of the net pension liability | $ 128,938,817 | $ 115,359,933 | $ 99,165,061 | $ 71,675,424 | $ 53,496,722 |
| District's covered-employee payroll | $ 65,083,027 | $ 61,338,126 | $ 59,496,894 | $ 53,396,092 | $ 49,422,822 |
| District's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 198.11% | 188.07% | 166.67% | 134.23% | 108.24% |
| Plan fiduciary net position as a percentage of the total pension liability | 71% | 72% | 74% | 79% | 83% |

* *This schedule is required to show information for ten years; however, until a full ten year trend is compiled, information is presented for those years for which information is available.*

**CAPISTRANO UNIFIED SCHOOL DISTRICT**
*Schedule of Pension Contributions*
*For the Fiscal Year Ended June 30, 2019*

*Last Ten Fiscal Years**

| | 2018-19 | 2017-18 | 2016-17 | 2015-16 | 2014-15 |
|---|---|---|---|---|---|
| **CalSTRS** | | | | | |
| Contractually required contribution | $ 34,850,729 | $ 31,735,847 | $ 27,121,941 | $ 23,450,408 | $ 18,044,051 |
| Contributions in relation to the contractually required contribution | 34,850,729 | 31,735,847 | 27,121,941 | 23,450,408 | 18,044,051 |
| Contribution deficiency (excess): | $ - | $ - | $ - | $ - | $ - |
| District's covered-employee payroll | $ 214,070,817 | $ 219,929,640 | $ 215,595,715 | $ 218,549,935 | $ 203,198,773 |
| Contributions as a percentage of covered-employee payroll | 16.28% | 14.43% | 12.58% | 10.73% | 8.88% |
| **CalPERS** | | | | | |
| Contractually required contribution | $ 11,862,901 | $ 10,108,045 | $ 8,518,639 | $ 7,048,597 | $ 6,285,254 |
| Contributions in relation to the contractually required contribution | 11,862,901 | 10,108,045 | 8,518,639 | 7,048,597 | 6,285,254 |
| Contribution deficiency (excess): | $ - | $ - | $ - | $ - | $ - |
| District's covered-employee payroll | $ 65,678,780 | $ 65,083,027 | $ 61,338,126 | $ 59,496,894 | $ 53,396,092 |
| Contributions as a percentage of covered-employee payroll | 18.062% | 15.531% | 13.888% | 11.847% | 11.771% |

* *This schedule is required to show information for ten years; however, until a full ten year trend is compiled, information is presented for those years for which information is available.*

**CAPISTRANO UNIFIED SCHOOL DISTRICT**
*Schedule of Changes in the District's Total OPEB Liability and Related Ratios*
*For the Fiscal Year Ended June 30, 2019*

Last 10 Fiscal Years*

| | 2018-19 | 2017-18 |
|---|---|---|
| **Total OPEB liability** | | |
| Service cost | $ 5,093,384 | $ 5,473,982 |
| Interest | 3,342,294 | 3,366,886 |
| Changes in assumptions | 1,415,125 | 1,110,160 |
| Benefit payments | (6,103,698) | (3,873,541) |
| **Net change in total OPEB liability** | 3,747,105 | 6,077,487 |
| **Total OPEB liability - beginning** | 110,093,577 | 104,016,090 |
| **Total OPEB liability - ending** | $ 113,840,682 | $ 110,093,577 |
| **Covered-employee payroll** | $ 207,699,203 | $ 232,033,828 |
| **Total OPEB liability as a percentage of covered-employee payroll** | 54.81% | 47.45% |

**Notes to Schedule:**

*The Discount rate as of the end of the 2018-19 fiscal year changed from 2.98% to 2.79% based on the change in 20-year municipal bond yields.*

** This schedule is required to show information for ten years; however, until a full ten year trend is compiled, information is presented for those years for which information is available.*

**CAPISTRANO UNIFIED SCHOOL DISTRICT**
*Schedule of the District's Proportionate Share of the Net OPEB Liability – MPP Program*
*For the Fiscal Year Ended June 30, 2019*

| | 2018 | 2017 |
|---|---|---|
| District's proportion of net OPEB liability | 0.6499% | 0.6492% |
| District's proportionate share of net OPEB liability | $ 2,487,492 | $ 2,731,268 |
| Covered-employee payroll | N/A | N/A |
| District's net OPEB liability as a percentage of covered-employee payroll | N/A | N/A |
| Plan fiduciary net position as a percentage of the total OPEB liability | 0.40% | 0.01% |

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

*This schedule is required to show information for ten years; however, until a full ten year trend is compiled, information is presented for those years for which information is available.*

**NOTE 1 – PURPOSE OF SCHEDULES**

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

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

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

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

***Change in benefit terms*** – There were no changes in benefit terms since the previous valuations for both CalSTRS and CalPERS.

***Change of assumptions*** **-** In 2018, demographic assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Actuarial Assumptions December 2017. There were no changes in the discount rate.

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

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

***Change in benefit terms*** – There were no changes in benefit terms since the previous valuation.

***Change of assumptions*** – Liability changes resulting from changes in economic and demographic assumptions are also deferred based on the average working life.

**NOTE 1 – PURPOSE OF SCHEDULES (continued)**

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

***Change in benefit terms*** – There were no changes in benefit terms since the previous valuation.

***Change of assumptions*** – The plan rate of investment return assumption was changed from 3.58 percent to 3.87 percent since the previous valuation.

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# *Supplementary Information*

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## CAPISTRANO UNIFIED SCHOOL DISTRICT
*Local Educational Agency Organization Structure*
*June 30, 2019*

The Capistrano Unified School District was unified in 1965 under the laws of the State of California. The District encompasses 200 square miles in seven cities and a portion of the unincorporated portion of Orange County. The District includes all or a part of the cities of San Clemente, Dana Point, San Juan Capistrano, Laguna Niguel, Aliso Viejo, Mission Viejo and Rancho Santa Margarita, and the communities of Las Flores, Coto de Caza, Dove Canyon, Ladera Ranch, Sendero/Rancho Mission Viejo, and Wagon Wheel. The District operates 33 elementary schools, 10 middle schools, 2 grades K-8 schools, 6 comprehensive high schools, 5 charter schools, and 8 alternative schools/programs. There were no boundary changes during the year.

**BOARD OF TRUSTEES**

| Member | Office | Term Expires |
|---|---|---|
| Gila Jones | President | 2022 |
| Martha McNicholas | Vice President | 2022 |
| Patricia Holloway | Clerk | 2020 |
| Judy Bullockus | Member | 2022 |
| Gary Pritchard [1] | Member | 2020 |
| Amy Hanacek | Member | 2020 |
| Jim Reardon | Member | 2020 |

**DISTRICT ADMINISTRATORS**

Kirsten M. Vital,
*Superintendent*

Clark Hampton,
*Deputy Superintendent, Business and Support Services*

Tim Brooks,
*Associate Superintendent, Human Resource Services*

Dr. Susan Holliday,
*Associate Superintendent, Education Services*

Dr. Gregory Merwin,
*Associate Superintendent, Student Support Services*

Donald Mahoney,
*Assistant Superintendent, SELPA, Special Education Services*

Brad Shearer,
*Assistant Superintendent, Curriculum & Instruction (Preschool – Grade 5)*

Joshua Hill,
*Assistant Superintendent, Curriculum & Instruction (Grades 6-12, K-8, Alternative Education)*

Philippa Townsend,
*Assistant Superintendent, Fiscal Services*

Robert Miller,
*Assistant Superintendent, Human Resource Services, Preschool to Grade 5*

Rich Montgomery,
*Assistant Superintendent, Human Resource Services, Grades 6-12, K-8, Alternative Education*

[1] Resigned effective September 9, 2019. The vacant seat was filled by Krista Castellanos.

**CAPISTRANO UNIFIED SCHOOL DISTRICT**
*Schedule of Average Daily Attendance*
*For the Fiscal Year Ended June 30, 2019*

| | **Second Period Report** | **Annual Report** |
|---|---|---|
| | Certificate No. (BFE052BC) | Certificate No. (60A68E38) |
| **Regular ADA & Extended Year:** | | |
| Grades TK-3 | 12,273.92 | 12,291.12 |
| Grades 4-6 | 10,092.70 | 10,084.34 |
| Grades 7-8 | 7,512.01 | 7,501.00 |
| Grades 9-12 | 15,209.84 | 15,119.23 |
| Total Regular ADA | 45,088.47 | 44,995.69 |
| **Special Education, Nonpublic, Nonsectarian Schools:** | | |
| Grades TK-3 | 3.60 | 3.88 |
| Grades 4-6 | 17.00 | 18.34 |
| Grades 7-8 | 14.85 | 16.62 |
| Grades 9-12 | 36.18 | 38.88 |
| Total Special Education, Nonpublic, Nonsectarian Schools ADA | 71.63 | 77.72 |
| **Community Day School ADA:** | | |
| Grades 9-12 | 5.24 | 5.45 |
| Total ADA | 45,165.34 | 45,078.86 |
| **Attendance Supplement:** | | |
| Fallbrook Union High School District students in grades 9-12 attending Capistrano USD | 94.11 | 94.99 |

**CAPISTRANO UNIFIED SCHOOL DISTRICT**
*Schedule of Instructional Time*
*For the Fiscal Year Ended June 30, 2019*

| Grade Level | Requirement | 2018-19 Actual Minutes | Number of Days Traditional Calendar* | Status |
|---|---|---|---|---|
| Kindergarten | 36,000 | 36,157 | 179 | Complied |
| Grade 1 | 50,400 | 50,955 | 179 | Complied |
| Grade 2 | 50,400 | 50,955 | 179 | Complied |
| Grade 3 | 50,400 | 50,955 | 179 | Complied |
| Grade 4 | 54,000 | 54,104 | 179 | Complied |
| Grade 5 | 54,000 | 54,104 | 179 | Complied |
| Grade 6 | 54,000 | 55,694 | 179 | Complied |
| Grade 7 | 54,000 | 55,694 | 179 | Complied |
| Grade 8 | 54,000 | 55,694 | 179 | Complied |
| Grade 9 | 64,800 | 64,897 | 180 | Complied |
| Grade 10 | 64,800 | 64,897 | 180 | Complied |
| Grade 11 | 64,800 | 64,897 | 180 | Complied |
| Grade 12 | 64,800 | 64,897 | 180 | Complied |

* The District was approved for a waiver for one emergency school day closure at Don Avila Elementary and Middle School.

**CAPISTRANO UNIFIED SCHOOL DISTRICT**

*Schedule of Financial Trends and Analysis*

*For the Fiscal Year Ended June 30, 2019*

| General Fund | (Budget) 2020 [2] | 2019 [3] | 2018 | 2017 |
|---|---|---|---|---|
| Revenues and other financing sources | $ 511,490,717 | $ 535,642,790 | $ 489,117,691 | $ 483,298,096 |
| Expenditures and other financing uses | 535,582,897 | 515,149,410 | 496,107,195 | 466,797,309 |
| Change in fund balance (deficit) | (24,092,180) | 20,493,380 | (6,989,504) | 16,500,787 |
| Ending fund balance | $ 64,152,551 | $ 88,244,731 | $ 67,751,351 | $ 74,740,855 |
| Available reserves [1] | $ 54,400,596 | $ 50,865,384 | $ 39,800,131 | $ 38,810,755 |
| Available reserves as a percentage of total outgo | 10.2% | 9.9% | 8.0% | 8.3% |
| Total long-term debt | $ 710,199,570 | $ 720,099,872 | $ 707,272,976 | $ 628,286,810 |
| Average daily attendance at P-2 | 44,624 | 45,165 | 45,853 | 46,377 |

The General Fund balance has increased by $13.5 million over the past two years. The fiscal year 2019-20 adopted budget projects a decrease of $24.1 million. For a district of this size, the state recommends available reserves of at least 2% of total general fund expenditures, transfers out, and other uses (total outgo).

The District has incurred an operating deficit in only one of the past three years, but anticipates incurring an operating deficit during the 2019-20 fiscal year. Long-term debt has increased by $91.8 million over the past two years.

Average daily attendance has decreased by 1,206 over the past two years. An additional decrease of 547 ADA is anticipated during fiscal year 2019-20.

[1] Available reserves consist of all unassigned fund balances in the General Fund.

[2] Revised budget September, 2019.

[3] The actual amounts reported in this schedule are for the General Fund only, and do not agree with the amounts reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances because the amounts on that schedule include the financial activity of the Adult Education Fund, the Deferred Maintenance Fund, and the Special Reserve Fund for Postemployment Benefits, in accordance with the fund type definitions promulgated by GASB Statement No. 54.

***There were no differences between the Annual Financial and Budget Report and the Audited Financial Statements in any funds.***

**CAPISTRANO UNIFIED SCHOOL DISTRICT**

*Schedule of Expenditures of Federal Awards*

*For the Fiscal Year Ended June 30, 2019*

| Federal Grantor/Pass-Through Grantor/Program or Cluster Title | Federal CFDA Number | Pass-Through Entity Identifying Number | Cluster Expenditures | Federal Expenditures |
|---|---|---|---|---|
| Federal Programs: | | | | |
| U.S. Department of Agriculture: | | | | |
| Passed through California Dept. of Education (CDE): | | | | |
| School Breakfast Program - Basic | 10.553 | 13525 | $ 243,414 | |
| School Breakfast Program - Especially Needy | 10.553 | 13526 | 1,062,157 | |
| National School Lunch Program | 10.555 | 13523 | 3,977,085 | |
| USDA Donated Foods | 10.555 | N/A | 693,782 | |
| Total Child Nutrition Cluster | | | | $ 5,976,438 |
| Passed through Orange County Office of Education: | | | | |
| Forest Reserve Funds | 10.665 | 10044 | | 118 |
| Total U.S. Department of Agriculture | | | | 5,976,556 |
| U.S. Department of Education: | | | | |
| Indian Education | 84.060 | N/A | | 37,916 |
| Passed through California Dept. of Education (CDE): | | | | |
| Every Student Succeeds Act (ESSA): | | | | |
| Title I, Part A, Basic Grants, Low-Income and Neglected | 84.010 | 14329 | | 4,808,514 |
| Title II, Part A, Supporting Effective Instruction | 84.367 | 14341 | | 699,819 |
| English Language Acquisition State Grants Cluster: | | | | |
| Title III, Immigrant Education Program | 84.365 | 15146 | 400,266 | |
| Title III, Limited English Proficiency | 84.365 | 14346 | 56,215 | |
| Subtotal English Language Acquisition State Grants Cluster | | | | 456,481 |
| Title IV, Part A, Student Support and Academic Enrichment Grants | 84.424 | 15396 | | 68,018 |
| Early Intervention Grants | 84.181 | 23761 | | 51,074 |
| Carl D. Perkins Career and Technical Education: Adult, Sec. 132 | 84.048 | 14893 | | 245,189 |
| Department of Rehabilitation: Workability II, Transition Partnership | 84.126 | 10006 | | 653,196 |
| Individuals with Disabilities Education Act (IDEA): | | | | |
| Basic Local Assistance Entitlement | 84.027 | 13379 | 8,375,421 | |
| Local Assistance, Part B, Sec 611, Private School ISPs | 84.027 | 10119 | 304,503 | |
| Preschool Grants, Part B, Section 619 (Age 3-4-5) | 84.173 | 13430 | 207,287 | |
| Mental Health Allocation Plan, Part B, Sec 611 | 84.027A | 15197 | 544,638 | |
| Preschool Staff Development, Part B, Sec 619 | 84.173A | 13431 | 2,483 | |
| Total Special Education (IDEA) Cluster | | | | 9,434,332 |
| Total U.S. Department of Education | | | | 16,416,623 |
| U.S. Department of Health & Human Services: | | | | |
| Passed through California Dept. of Education (CDE): | | | | |
| Medi-Cal Billing Option | 93.778 | 10013 | 528,111 | |
| Medi-Cal Administrative Activities (MAA) | N/A | 10060 | 168,345 | |
| Total Medicaid Cluster | | | | 696,456 |
| Total U.S. Department of Health & Human Services | | | | 696,456 |
| Total Expenditures of Federal Awards | | | | $ 23,127,551 |

Of the Federal expenditures presented in the schedule, the District provided no Federal awards to subrecipients.

**CAPISTRANO UNIFIED SCHOOL DISTRICT**
*Schedule of Charter Schools*
*For the Fiscal Year Ended June 30, 2019*

| Charter School | | |
| --- | --- | --- |
| Name | Number | Inclusion in Financial Statements |
| Journey | 0294 | Not included |
| Opportunities for Learning - Capistrano | 0463 | Not included |
| California Connections Academy Southern California | 0664 | Not included |
| Community Roots Academy | 1274 | Not included |
| Oxford Preparatory Academy - South Orange County | 1324 | Not included |

## NOTE 1 – PURPOSE OF SCHEDULES

### Schedule of Average Daily Attendance (ADA)

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

### Schedule of Instructional Time

The District has participated in the Incentives for Longer Instructional Day and Longer Instructional Year. The District has met its LCFF target funding. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with Article 8 (commencing with Section 46200) of Chapter 2 Part 26 of the Education Code.

### Schedule of Financial Trends and Analysis

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

### Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

### Schedule of Expenditures of Federal Awards

The schedule of expenditures of Federal awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements. The District did not elect to use the ten percent de minimis indirect cost rate.

The following schedule provides a reconciliation between revenues reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts represent Federal funds that have been recorded as revenues that have not been expended by June 30, 2019.

| | CFDA Number | Amount |
|---|---|---|
| Total Federal Revenues from the Statement of Revenues, Expenditures, and Changes in Fund Balances | | $ 24,331,442 |
| Differences between Federal Revenues and Expenditures: | | |
| Medi-Cal Administrative Activities | 93.778 | (1,203,891) |
| Total Schedule of Expenditures of Federal Awards | | $ 23,127,551 |

### Schedule of Charter Schools

This schedule lists all charter schools chartered by the District, and displays information for each charter school and whether or not the charter school is included in the District audit.

## *Other Independent Auditors' Reports*

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

Board of Trustees
Capistrano Unified School District
San Juan Capistrano, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Capistrano Unified School District as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Capistrano Unified School District's basic financial statements, and have issued our report thereon dated October 22, 2019.

**Internal Control Over Financial Reporting**

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

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

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



Jeff Nigro, CPA, CFE | Elizabeth Nigro, CPA | Peter Glenn, CPA | Paul J. Kaymark, CPA | Michael Klein, CPA, CMA, EA

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

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

Nigro & Nigro, PC

Murrieta, California
October 22, 2019

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

Board of Trustees
Capistrano Unified School District
San Juan Capistrano, California

**Report on Compliance for Each Major Federal Program**
We have audited Capistrano Unified School District's compliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on each of Capistrano Unified School District's major federal programs for the year ended June 30, 2019. Capistrano Unified School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

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

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

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

***Opinion on Each Major Federal Program***
In our opinion, Capistrano Unified School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.



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**Report on Internal Control Over Compliance**

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

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

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

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

Nigro & Nigro, PC

Murrieta, California
October 22, 2019

## INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Board of Trustees
Capistrano Unified School District
San Juan Capistrano, California

**Report on State Compliance**
We have audited Capistrano Unified School District's compliance with the types of compliance requirements described in the *2018-19 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* that could have a direct and material effect on each of the Capistrano Unified School District's state government programs as noted on the following page for the fiscal year ended June 30, 2019.

***Management's Responsibility***
Management is responsible for compliance with state laws, regulations, and the terms and conditions of its State programs.

***Auditors' Responsibility***
Our responsibility is to express an opinion on compliance for each of Capistrano Unified School District's state programs based on our audit of the types of compliance requirements referred to on the following page. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2018-19 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to on the following page that could have a direct and material effect on a state program occurred. An audit includes examining, on a test basis, evidence about Capistrano Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each state program. However, our audit does not provide a legal determination of Capistrano Unified School District's compliance.

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

| Description | Procedures Performed |
|---|---|
| Local Education Agencies Other Than Charter Schools: | |
| Attendance | Yes |
| Teacher Certification and Misassignments | Yes |
| Kindergarten Continuance | Yes |
| Independent Study | Yes |
| Continuation Education | Yes |
| Instructional Time | Yes |
| Instructional Materials | Yes |
| Ratio of Administrative Employees to Teachers | Yes |



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| Description | Procedures Performed |
|---|---|
| Classroom Teacher Salaries | Yes |
| Early Retirement Incentive | Not Applicable |
| Gann Limit Calculation | Yes |
| School Accountability Report Card | Yes |
| Juvenile Court Schools | Not Applicable |
| Middle or Early College High Schools | Not Applicable |
| K-3 Grade Span Adjustment | Yes |
| Transportation Maintenance of Effort | Yes |
| Apprenticeship: Related and Supplemental Instruction | Not Applicable |
| Comprehensive School Safety Plan | Yes |
| District of Choice | Not Applicable |
| School Districts, County Offices of Education, and Charter Schools: | |
| California Clean Energy Jobs Act | Yes |
| After/Before School Education and Safety Program | Yes |
| Proper Expenditure of Education Protection Account Funds | Yes |
| Unduplicated Local Control Funding Formula Pupil Counts | Yes |
| Local Control and Accountability Plan | Yes |
| Independent Study - Course Based | Not Applicable |
| Charter Schools: | |
| Attendance | Not Applicable |
| Mode of Instruction | Not Applicable |
| Nonclassroom-Based Instruction/Independent Study | Not Applicable |
| Determination of Funding for Nonclassroom-Based Instruction | Not Applicable |
| Annual Instructional Minutes – Classroom Based | Not Applicable |
| Charter School Facility Grant Program | Not Applicable |

***Unmodified Opinion on Compliance with State Programs***

In our opinion, Capistrano Unified School District complied, in all material respects, with the types of compliance requirements referred to above for the year ended June 30, 2019.

Nigro & Nigro, PC

Murrieta, California
October 22, 2019

# *Findings and Questioned Costs*

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

***Financial Statements***

| | |
|---|---|
| Type of auditors' report issued | Unmodified |
| Internal control over financial reporting: | |
| Material weakness(es) identified? | No |
| Significant deficiency(s) identified not considered to be material weaknesses? | None reported |
| Noncompliance material to financial statements noted? | No |

***Federal Awards***

| | |
|---|---|
| Internal control over major programs: | |
| Material weakness(es) identified? | No |
| Significant deficiency(s) identified not considered to be material weaknesses? | None reported |
| Type of auditors' report issued on compliance for major programs: | Unmodified |
| Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance Sec. 200.516 | No |

Identification of major programs:

| CFDA Numbers | Name of Federal Program or Cluster |
|---|---|
| 10.553 & 10.555 | Child Nutrition Cluster |

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

***State Awards***

| | |
|---|---|
| Type of auditors' report issued on compliance for state programs: | Unmodified |

**SECTION II - FINANCIAL STATEMENT FINDINGS**

This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards.* Pursuant to Assembly Bill (AB) 3627, all audit findings must be identified as one or more of the following categories:

| Five Digit Code | AB 3627 Finding Types |
|---|---|
| 10000 | Attendance |
| 20000 | Inventory of Equipment |
| 30000 | Internal Control |
| 40000 | State Compliance |
| 42000 | Charter School Facilities Programs |
| 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 |

***There were no financial statement findings in 2018-19.***

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

This section identifies the audit findings required to be reported by the Uniform Guidance, Section 200.516 (e.g., significant deficiencies, material weaknesses, and instances of noncompliance, including questioned costs).

***There were no federal award findings or questioned costs in 2018-19.***

## SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

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

***There were no state award findings or questioned costs in 2018-19.***

| Original Finding No. | Finding | Code | Recommendation | Current Status |
|---|---|---|---|---|
| *Finding 2018-001: CALPADS Unduplicated Pupil Count* | Supplemental and concentration grant amounts are calculated based on the percentage of "unduplicated pupils" enrolled in the LEA on Census Day (first Wednesday in October). The percentage equals:<br><br>• Unduplicated count of pupils who (1) are English learners, (2) meet income or categorical eligibility requirements for free or reduced-price meals under the National School Lunch Program, or (3) are foster youth. "Unduplicated count" means that each pupil is counted only once even if the pupil meets more than one of these criteria (*EC* sections 2574(b)(2) and 42238.02(b)(1)).<br><br>• Divided by total enrollment in the LEA (*EC* sections 2574(b)(1) and 42238.02(b)(5)). All pupil counts are based on Fall 1 certified enrollment reported in the CALPADS as of Census Day.<br><br>During our testing of the English Learners (EL) students reported in the CALPADS 1.17 and 1.18 reports, we noted four students who were classified as free or reduced but did not have an application or income eligibility form to support the designation. | 40000 | We recommend that the District implement a procedure to review the CALPADS information prior to the reports submission to the California Department of Education. | Implemented. |

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To the Board of Trustees
Capistrano Unified School District
San Juan Capistrano, California

In planning and performing our audit of the basic financial statements of Capistrano Unified School District for the year ending June 30, 2019, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted matters that are an opportunity for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated October 22, 2019 on the financial statements of Capistrano Unified School District.

**ASSOCIATED STUDENT BODY (ASB) FUNDS**

***Observation:*** In our testing of cash receipts, we found deposits that lacked sufficient supporting documentation. For these deposits, the documentation missing was a combination of: revenue potentials, tally sheets, order forms, ticket logs, and/or prenumbered receipts which serve to document the transactions from the point of sale. Without supporting documentation, we could not verify whether all cash collected had been deposited intact and into the correct ASB account.

> ***Recommendation:*** Sound internal controls for handling cash discourage theft of ASB funds and protect those who handle the cash. It is important to tie all proceeds to the specific fundraiser from which they were generated and to ensure that all proceeds from an event are turned in and properly accounted for. We recommend that before any events are held, control procedures should be established that will allow for the reconciliation between money collected and fundraiser sales.

***Observation:*** In our testing of cash disbursements at most of the school sites, we noted one or two disbursements selected in our sample were not approved by the District representative, the ASB advisor, and/or the student representative until after the expenditure had already been incurred.

> ***Recommendation:*** Education Code Section 48933(b) requires all expenditures from ASB funds be authorized by a student representative, an advisor, and a district representative (usually a principal or vice-principal) prior to disbursing the funds. As a "best practice", approval by required parties should be obtained before the actual commitment to purchase the items in order to ensure the expense is a proper use of student-body funds and falls within budgetary guidelines.



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**CAPITAL ASSET ACCOUNTING**

***Observation:*** The District has not taken a physical inventory of capital assets in a number of years (only vehicles and IT assets are inventoried). As a result, we observed several capital asset items on the District's capital asset inventory that were several years old, which are likely no longer owned or in use.

> ***Recommendation:*** The District should either hire a consultant to perform a full physical inventory of all capital assets, or it should identify employees that can perform the inventory count in-house, though it will be a large undertaking.

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

Nigro & Nigro, PC

Murrieta, California
October 22, 2019