



Annual Financial Statements
June 30, 2019

Spencer Valley School District

SPENCER VALLEY SCHOOL DISTRICT

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JUNE 30, 2019

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FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

Governing Board
Spencer Valley School District
Santa Ysabel, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund information of the Spencer Valley School District (the District) as of and for the 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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2018-2019 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 and each major fund information of the Spencer Valley School District, as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter – Correction of an Error

As discussed in Note 13 to the financial statements, in 2019, the beginning net position of the government-wide financial statements was restated to reflect the understatement of the net effect of all changes in the deferred outflows, deferred inflows, and net pension liability. The beginning fund balance of the General Fund and the Special Reserve Fund for Capital Outlay Projects was restated to reflect the overstatement and understatement of the respective funds due to the General Fund absorbing the Special Reserve Fund for Capital Outlay Projects in the prior year. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 11, the budgetary comparison schedule on page 50, the schedule of changes in the District's total OPEB liability and related ratios on page 51, the schedule of the District's proportionate share of the net pension liability on page 52, and the schedule of District contributions on page 53, 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 Spencer Valley School District's basic financial statements. The other supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2019, on our consideration of the Spencer Valley School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Spencer Valley School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Spencer Valley School District's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Rancho Cucamonga, California
December 13, 2019

SPENCER VALLEY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2019

This section of Spencer Valley School District's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2019, with comparative information for the year ended June 30, 2018. Please read it in conjunction with the District's financial statements, which immediately follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

The financial statements presented herein include all of the activities of the District and its component units using the integrated approach as prescribed by Governmental Accounting Standards Board (GASB) Statement No. 34.

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

The *Fund Financial Statements* include statements for governmental activities.

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

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

The Primary unit of the government is the Spencer Valley School District.

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Position and the Statement of Activities

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

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

SPENCER VALLEY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2019

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

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

Governmental Activities – The District reports all of its services in this category. This includes the education of kindergarten through grade eight students and the on-going effort to improve and maintain buildings and sites. Property taxes, State income taxes, user fees, interest income, Federal, State, and local grants, as well as general obligation bonds, finance these activities.

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

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

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

FINANCIAL HIGHLIGHTS

- The fiscal year (FY) 2018-2019 unrestricted General Funds closed the year in excess of the minimum five percent reserve for economic uncertainties.
- All employees received a three percent pay increase.

SPENCER VALLEY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2019

THE DISTRICT AS A WHOLE

Net Position

The District's net position was \$11,356,097 for the fiscal year ended June 30, 2019. Of this amount, \$8,193,576 was unrestricted. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the governing board's ability to use net position for day-to-day operations. Our analysis below, in summary form, focuses on the net position (Table 1) and change in net position (Table 2) of the District's governmental activities.

Table 1

The \$8,193,576 in unrestricted net position of governmental activities represents the accumulated results of all past years' operations.

	Governmental Activities	
		(as Restated)
	2019	2018
Assets		
Current and other assets	\$ 11,126,186	\$ 10,179,984
Capital assets	1,147,990	1,175,825
Total Assets	12,274,176	11,355,809
Deferred Outflows of Resources	251,521	337,574
Liabilities		
Current liabilities	174,040	640,654
Long-term obligations	71,013	90,421
Aggregate pension liability	848,903	843,665
Total Liabilities	1,093,956	1,574,740
Deferred Inflows of Resources	75,644	165,078
Net Position		
Net investment in capital assets	1,147,990	1,175,825
Restricted	2,014,531	1,725,835
Unrestricted (Deficit)	8,193,576	7,051,905
Total Net Position	\$ 11,356,097	\$ 9,953,565

SPENCER VALLEY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2019

Changes in Net Position

The results of this year's operations for the District as a whole are reported in the *Statement of Activities* on page 13. Table 2 takes the information from the Statement, rounds off the numbers, and rearranges them slightly so you can see our total revenues for the year.

Table 2

	Governmental Activities	
	2019	2018
Revenues		
Program revenues:		
Operating grants and contributions	\$ 1,972,279	\$ 2,009,332
General revenues:		
Federal and State aid not restricted	1,390,242	1,392,818
Property taxes	339,434	317,703
Other general revenues	403,087	162,679
Total Revenues	4,105,042	3,882,532
Expenses		
Instruction-related	2,109,891	2,169,366
Pupil services	318,819	307,640
Administration	121,385	49,647
Plant services	138,465	128,869
Other	13,950	213,925
Total Expenses	2,702,510	2,869,447
Change in Net Position	\$ 1,402,532	\$ 1,013,085

Governmental Activities

As reported in the *Statement of Activities* on page 13, the cost of all of our governmental activities this year was \$2,702,510. However, the amount that our taxpayers ultimately financed for these activities through local taxes was \$339,434 because the cost was paid by other governments and organizations who subsidized certain programs with grants and contributions (\$1,972,279). We paid for the remaining "public benefit" portion of our governmental activities with \$1,390,242 in Federal and State funds, and with \$403,087 in other revenues, like interest and general entitlements.

SPENCER VALLEY SCHOOL DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019**

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

Table 3

	Total Cost of Services		Net Cost of Services	
	2019	2018	2019	2018
Instruction-related	\$ 2,109,891	\$ 2,169,366	\$ 660,457	\$ 678,924
Pupil services	318,819	307,640	13,109	304,425
Administration	121,385	49,647	107,486	(160,927)
Plant services	138,465	128,869	138,465	106,081
All other services	13,950	213,925	(189,286)	(68,388)
Total	\$ 2,702,510	\$ 2,869,447	\$ 730,231	\$ 860,115

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$10,952,146, which is an increase of \$1,412,816 from last year (Table 4).

Table 4

	Balances and Activity			
	(as Restated) July 1, 2018	Revenues	Expenditures	June 30, 2019
General	\$ 9,519,172	\$ 4,056,949	\$ 2,663,588	\$ 10,912,533
Special Reserve Fund for Capital Outlay Projects	20,158	39,278	19,823	39,613
Total	\$ 9,539,330	\$ 4,096,227	\$ 2,683,411	\$ 10,952,146

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final amendment to the budget was adopted in June 2019. (A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in our annual report on page 50.)

SPENCER VALLEY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2019

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2019, the District had \$1,147,990 in a broad range of capital assets (net of depreciation), including land, buildings, furniture, and equipment. This amount represents a net decrease (including additions and depreciation) of \$27,835 from last year (Table 5). We present more detailed information about our capital assets in Note 5 to the financial statements.

Table 5

	Governmental Activities	
	2019	2018
Land and construction in progress	\$ 283,800	\$ 263,977
Buildings and improvements	794,198	841,357
Equipment	69,992	70,491
Total	\$ 1,147,990	\$ 1,175,825

Long-Term Obligations

At the end of this year, the District had \$71,013 in long-term obligations outstanding versus \$90,421 last year. Those obligations consisted of the following:

Table 6

	Governmental Activities	
	2019	2018
Compensated absences (vacation)	\$ 25,110	\$ 32,186
Net other postemployment benefits (OPEB) liability	45,903	58,235
Total	\$ 71,013	\$ 90,421

We present more detailed information regarding our long-term obligations in Note 8 of the financial statements.

Net Pension Liability (NPL)

At year end, the District has a net pension liability of \$848,903 versus \$843,665 last year, an increase of \$5,238, or .62 percent.

SPENCER VALLEY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2019

SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2018-2019 ARE NOTED BELOW:

A Master Plan was completed for an Annex building to serve Transitional Kindergarten and Kindergarten students, parking lot safety upgrades, and infrastructure upgrades.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In considering the District Budget for the 2019-2020 year, the governing board and management used the following criteria:

The key assumptions in our revenue forecast are:

1. 3.26% Statutory COLA.
2. Enrollment of 41
3. ADA of 39
 - 21.90 Grades TK-3
 - 16.18 Grades 4-6
 - 0.92 Grades 7-8
4. No changes in property taxes.

The new items specifically addressed in the budget are:

Parking lot safety upgrades, infrastructure upgrades, and Annex building.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact Julie Z. Weaver, Superintendent, or Kathleen McKenzie, Chief Business Official, at Spencer Valley School District address, 4414 Highway 78/79, Santa Ysabel, California, 92070, at the Spencer Valley School District mailing address, P.O. Box 159, Santa Ysabel, CA 92070 or e-mail at Kathleen@svesd.net.

SPENCER VALLEY SCHOOL DISTRICT

STATEMENT OF NET POSITION JUNE 30, 2019

	<u>Governmental Activities</u>
ASSETS	
Deposits and investments	\$ 10,444,958
Receivables	681,228
Capital assets	
Land and construction in process	283,800
Other capital assets	1,366,552
Accumulated depreciation	(502,362)
Total Capital Assets	<u>1,147,990</u>
Total Assets	<u><u>12,274,176</u></u>
 DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources related to pensions	<u>251,521</u>
 LIABILITIES	
Accounts payable	174,040
Noncurrent portion of long-term obligations other than pensions	71,013
Aggregate net pension liability	848,903
Total Liabilities	<u><u>1,093,956</u></u>
 DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to pensions	<u>75,644</u>
 NET POSITION	
Net investment in capital assets	1,147,990
Restricted for:	
Capital projects	177
Educational programs	2,014,354
Unrestricted	8,193,576
Total Net Position	<u><u>\$ 11,356,097</u></u>

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

SPENCER VALLEY SCHOOL DISTRICT

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2019

	General Fund	Special Reserve Fund for Capital Outlay Projects	Total Governmental Funds
ASSETS			
Deposits and investments	\$ 10,424,428	\$ 20,530	\$ 10,444,958
Receivables	656,272	24,956	681,228
Total Assets	\$ 11,080,700	\$ 45,486	\$ 11,126,186
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 168,167	\$ 5,873	\$ 174,040
Fund Balances:			
Nonspendable	10,000	-	10,000
Restricted	2,014,354	177	2,014,531
Assigned	2,641,157	39,436	2,680,593
Unassigned	6,247,022	-	6,247,022
Total Fund Balances	10,912,533	39,613	10,952,146
Total Liabilities and Fund Balances	\$ 11,080,700	\$ 45,486	\$ 11,126,186

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

SPENCER VALLEY SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2019**

Total Fund Balance - Governmental Funds **\$ 10,952,146**

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

Capital assets used in governmental activities are not financial resources
and, therefore, are not reported as assets in governmental funds.

The cost of capital assets is	\$ 1,650,352	
Accumulated depreciation is	(502,362)	
Net Capital Assets		1,147,990

Deferred outflows of resources related to pensions represent a
consumption of net position in a future period and is not reported in the
District's funds. Deferred outflows of resources related to pensions at
year end consist of:

Pension contributions subsequent to measurement date	88,374	
Net change in proportionate share of net pension liability	25,036	
Differences between projected and actual earnings on pension plan investments	1,949	
Differences between expected and actual experience in the measurement of the total pension liability	17,468	
Changes of assumptions	118,694	
Total Deferred Outflows of Resources Related to Pensions		251,521

Deferred inflows of resources related to pensions represent an acquisition
of net position that applies to a future period and is not reported in the
District's funds. Deferred inflows of resources related to pensions at
year end consist of:

Net change in proportionate share of net pension liability	(43,223)	
Differences between projected and actual earnings on pension plan investments	(23,540)	
Differences between expected and actual experience in the measurement of the total pension liability	(8,881)	
Total Deferred Inflows of Resources Related to Pensions		(75,644)

Net pension liability is not due and payable in the current period,
and is not reported as a liability in the funds. (848,903)

Long-term obligations, including bonds payable, are not due and payable in
the current period and, therefore, are not reported as liabilities in the funds.

Long-term obligations at year end consist of:

Compensated absences (vacation)	(25,110)	
Net other postemployment benefits (OPEB) liability	(45,903)	
Total Long-Term Obligations		(71,013)
Total Net Position - Governmental Activities	\$ 11,356,097	

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

SPENCER VALLEY SCHOOL DISTRICT

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

	General Fund	Special Reserve Fund for Capital Outlay Projects	Total Governmental Funds
REVENUES			
Local Control Funding Formula	\$ 1,714,493	\$ 24,721	\$ 1,739,214
Federal sources	364,701	-	364,701
Other State sources	186,879	-	186,879
Other local sources	1,790,876	607	1,791,483
Total Revenues	4,056,949	25,328	4,082,277
EXPENDITURES			
Current			
Instruction	1,948,375	-	1,948,375
Instruction-related activities:			
Supervision of instruction	52,719	-	52,719
Instructional library, media and technology	1,108	-	1,108
School site administration	81,810	-	81,810
Pupil services:			
Food services	19,508	-	19,508
All other pupil services	298,905	-	298,905
Administration:			
All other administration	115,094	-	115,094
Plant services	132,119	-	132,119
Facility acquisition and construction	-	19,823	19,823
Total Expenditures	2,649,638	19,823	2,669,461
Excess (Deficiency) of Revenues Over Expenditures	1,407,311	5,505	1,412,816
Other Financing Sources (Uses)			
Transfers in	-	13,950	13,950
Transfers out	(13,950)	-	(13,950)
Net Financing Sources (Uses)	(13,950)	13,950	-
NET CHANGE IN FUND BALANCES	1,393,361	19,455	1,412,816
Fund Balance - Beginning, as restated	9,519,172	20,158	9,539,330
Fund Balance - Ending	\$ 10,912,533	\$ 39,613	\$ 10,952,146

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

SPENCER VALLEY SCHOOL DISTRICT

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

Total Net Change in Fund Balances - Governmental Funds **\$ 1,412,816**
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:

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

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

Depreciation expense	\$ (63,156)	
Capital outlays	<u>35,321</u>	
Net Expense Adjustment		(27,835)

In the Statement of Activities, certain operating expenses, such as compensated absences (vacations) 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). Vacation used was more than the amounts earned by \$7,076. 7,076

In the governmental funds, pension costs are based on employer contributions made to pension plans during the year. However, in the Statement of Activities, pension expense is the net effect of all changes in the deferred outflows, deferred inflows and net pension liability during the year. (1,857)

In the governmental funds, OPEB costs are based on employer contributions made to OPEB plans during the year. However, in the Statement of Activities, OPEB expense is the net effect of all changes in the deferred outflows, deferred inflows, and net OPEB liability during the year. 12,332

Change in Net Position of Governmental Activities	<u><u>\$ 1,402,532</u></u>
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The accompanying notes are an integral part of these financial statements.

SPENCER VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Spencer Valley School District (the District) was founded in 1876 under the laws of the State of California. The District operates under a locally elected three-member Board form of government and provides educational services to grades K - 8 as mandated by the State and/or Federal agencies. The District operates one elementary school.

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, boards, and agencies that are not legally separate from the District. For Spencer Valley School District, this includes general operations and student related activities of the District.

Other Related Entities

Charter School The District has approved Charters for California Virtual Academy @ San Diego and Insight @ San Diego pursuant to *Education Code* Section 47605. California Virtual Academy @ San Diego and Insight @ San Diego are not considered a component unit of the District.

Basis of Presentation - Fund Accounting

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

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

Major Governmental Funds

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

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

SPENCER VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

One fund is currently defined as a special revenue funds in the California State Accounting Manual (CSAM) that does not meet the GASB Statement No. 54 special revenue fund definition. Specifically, Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects, is not substantially composed of restricted or committed revenue sources. While this fund is authorized by statute and will remain open for internal reporting purposes, this fund functions effectively as an extension of the General Fund, and accordingly has been combined with the General Fund for presentation in these audited financial statements.

As a result, the General Fund reflects an increase in fund balance of \$2,382,356.

Basis of Accounting - Measurement Focus

Government-Wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This differs from the manner in which governmental fund financial statements are prepared.

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

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

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

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

SPENCER VALLEY SCHOOL DISTRICT

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Revenues – Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter, to be used to pay liabilities of the current fiscal year. Generally, available is defined as collectible within 45 or 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 restrictions. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable, and typically paid within 90 days. Principal and interest on long-term obligations, which has not matured, are recognized when paid in the governmental funds as expenditures. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds but are recognized in the entity-wide statements.

Investments

Investments held at June 30, 2019, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost.

Capital Assets and Depreciation

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

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

SPENCER VALLEY SCHOOL DISTRICT

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Depreciation is computed using the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 25 to 50 years; improvements/infrastructure, 7 to 25 years; equipment, 5 to 20 years.

Interfund Balances

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

Compensated Absences

Compensated absences are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide statement of net position. For governmental funds, the current portion of unpaid compensated absences is recognized upon the occurrence of relevant events such as employee resignations and retirements that occur prior to year-end that have not yet been paid with expendable available financial resources. These amounts are reported in the fund from which the employees who have accumulated leave are paid.

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

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the governmental funds.

However, compensated absences and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the governmental fund financial statements only to the extent that they are due for payment during the current year. Other long-term obligations are recognized as liabilities in the governmental fund financial statements when due.

Deferred Outflows/Inflows of Resources

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

SPENCER VALLEY SCHOOL DISTRICT

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

Pensions

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

Postemployment Benefits Other Than Pensions (OPEB)

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

Fund Balances - Governmental Funds

As of June 30, 2019, fund balances of the governmental funds are classified as follows:

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

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

Committed - amounts that can be used only for specific purposes determined by a formal action of the governing board. The governing board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through resolutions or other action as approved by the governing board. The District currently does not have any committed funds.

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

Unassigned - all other spendable amounts.

SPENCER VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Spending Order Policy

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

Minimum Fund Balance Policy

In fiscal year 2018-2019, the governing board adopted a minimum fund balance policy for the General Fund in order to protect the district against revenue shortfalls or unpredicted on-time expenditures. The policy requires a Reserve for Economic Uncertainties consisting of unassigned amounts equal to no less than the greater of 5 percent of General Fund expenditures and other financing uses or \$55,000.

Net Position

Net position represents the difference between assets and liabilities. Net position net of investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. The government-wide financial statements report \$2,014,531 of restricted net position.

Interfund Activity

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

Estimates

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

SPENCER VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Property Tax

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

Change in Accounting Principles

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. The Statement did not have a significant impact on the District's financial statements.

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.

SPENCER VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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. The Statement did not have a significant impact on the District's financial statements.

New Accounting Pronouncements

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 the reporting periods beginning after December 15, 2018. Early implementation is encouraged. Management is evaluating the impact of the Statement.

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

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

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.

SPENCER VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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. Management is evaluating the impact of the Statement.

In August 2018, the GASB issued Statement No. 90, *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 60*. 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 of this Statement should be applied prospectively. Management is evaluating the impact of the Statement.

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.

SPENCER VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

A conduit debt obligation is defined as a debt instrument having all of the following characteristics:

- There are at least three parties involved: (1) an issuer, (2) a third-party obligor, and (3) a debt holder or a debt trustee.
- The issuer and the third-party obligor are not within the same financial reporting entity.
- The debt obligation is not a parity bond of the issuer, nor is it cross-collateralized with other debt of the issuer.
- The third-party obligor or its agent, not the issuer, ultimately receives the proceeds from the debt issuance.
- The third-party obligor, not the issuer, is primarily obligated for the payment of all amounts associated with the debt obligation (debt service payments).

All conduit debt obligations involve the issuer making a limited commitment. Some issuers extend additional commitments or voluntary commitments to support debt service in the event the third party is, or will be, unable to do so.

An issuer should not recognize a conduit debt obligation as a liability. However, an issuer should recognize a liability associated with an additional commitment or a voluntary commitment to support debt service if certain recognition criteria are met. As long as a conduit debt obligation is outstanding, an issuer that has made an additional commitment should evaluate at least annually whether those criteria are met. An issuer that has made only a limited commitment should evaluate whether those criteria are met when an event occurs that causes the issuer to reevaluate its willingness or ability to support the obligor's debt service through a voluntary commitment.

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. 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.

Issuers should not report those arrangements as leases, nor should they recognize a liability for the related conduit debt obligations or a receivable for the payments related to those arrangements. In addition, the following provisions apply:

- If the title passes to the third-party obligor at the end of the arrangement, an issuer should not recognize a capital asset.
- If the title does not pass to the third-party obligor and the third party has exclusive use of the entire capital asset during the arrangement, the issuer should not recognize a capital asset until the arrangement ends.
- If the title does not pass to the third-party obligor and the third party has exclusive use of only portions of the capital asset during the arrangement, the issuer, at the inception of the arrangement, should recognize the entire capital asset and a deferred inflow of resources. The deferred inflow of resources should be reduced, and an inflow recognized, in a systematic and rational manner over the term of the arrangement.

SPENCER VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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 the reporting periods beginning after December 15, 2020. Early implementation is encouraged. Management is evaluating the impact of the Statement.

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2019, are classified in the accompanying financial statements as follows:

Governmental activities	<u><u>\$ 10,444,958</u></u>
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Deposits and investments as of June 30, 2019, consist of the following:

Cash in revolving	\$ 10,000
Investments	<u>10,434,958</u>
Total Deposits and Investments	<u><u>\$ 10,444,958</u></u>

Policies and Practices

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

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

SPENCER VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

General Authorizations

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

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

Interest Rate Risk

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

SPENCER VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Weighted Average Maturity

The District monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. Information about the weighted average maturity of the District's portfolio is presented in the following schedule:

Investment Type	Reported Amount	Weighted Average Maturity in Days
San Diego County Investment Pool	<u>\$ 10,434,958</u>	<u>528</u>

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investment in the County Pool is not required to be rated, nor has it been rated as of June 30, 2019.

Investment Type	Minimum Legal Rating	Rating June 30, 2019	Reported Amount
San Diego County Investment Pool	Not Required	Not Rated	<u>\$ 10,434,958</u>

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2019, the District did not have any bank balance exposed to custodial credit risk.

NOTE 3 - FAIR VALUE MEASUREMENTS

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

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

SPENCER VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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

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

Uncategorized - Investments in the San Diego 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.

The District's fair value measurements are as follows at June 30, 2019:

<u>Investment Type</u>	<u>Reported Amount</u>	<u>Uncategorized</u>
San Diego County Investment Pool	<u>\$ 10,434,958</u>	<u>\$ 10,434,958</u>

NOTE 4 - RECEIVABLES

Receivables at June 30, 2019, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	<u>General Fund</u>	<u>Special Reserve Fund for Capital Outlay Projects</u>	<u>Total</u>
Federal Government			
Categorical aid	\$ 349,097	\$ -	\$ 349,097
State Government			
Categorical aid	74,775	-	74,775
Lottery	1,827	-	1,827
Local Government			
Interest	99,158	235	99,393
Other Local Sources	131,415	24,721	156,136
Total	<u>\$ 656,272</u>	<u>\$ 24,956</u>	<u>\$ 681,228</u>

SPENCER VALLEY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 5 - CAPITAL ASSETS

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

	Balance July 1, 2018	Additions	Deductions	Balance June 30, 2019
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	\$ 263,977	\$ -	\$ -	\$ 263,977
Construction in Progress	-	19,823	-	19,823
Total Capital Assets Not Being Depreciated	263,977	19,823	-	283,800
Capital Assets Being Depreciated:				
Land Improvements	82,890	-	-	82,890
Buildings and Improvements	1,114,116	-	-	1,114,116
Furniture and Equipment	154,048	15,498	-	169,546
Total Capital Assets Being Depreciated	1,351,054	15,498	-	1,366,552
Total Capital Assets	1,615,031	35,321	-	1,650,352
Less Accumulated Depreciation:				
Land Improvements	61,183	2,895	-	64,078
Buildings and Improvements	294,466	44,264	-	338,730
Furniture and Equipment	83,557	15,997	-	99,554
Total Accumulated Depreciation	439,206	63,156	-	502,362
Governmental Activities Capital Assets, Net	\$ 1,175,825	\$ (27,835)	\$ -	\$ 1,147,990

Depreciation expense was charged as a direct expense to governmental and business-type functions as follows:

Governmental Activities	
Instruction	\$ 34,801
Food services	406
All other administration	6,158
Plant services	21,791
Total Depreciation Expenses All Activities	<u>\$ 63,156</u>

SPENCER VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

NOTE 6 - INTERFUND TRANSACTIONS

Operating Transfers

Interfund transfers for the year ended June 30, 2019, consisted of the following:

The General Fund transferred to the Special Reserve Fund for Capital Outlay Projects for capital projects.	<u>\$ 13,950</u>
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Interfund transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 7 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2019, consisted of the following:

	General Fund	Special Reserve Fund for Capital Outlay Projects	Total
Vendor payables	\$ 64,576	\$ 5,873	\$ 70,449
State principal apportionment	91,550	-	91,550
Salaries and benefits	12,041	-	12,041
Total	<u>\$ 168,167</u>	<u>\$ 5,873</u>	<u>\$ 174,040</u>

SPENCER VALLEY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 8 - LONG-TERM OBLIGATIONS

Summary

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

	Balance July 1, 2018	Additions	Deductions	Balance June 30, 2019	Due in One Year
Compensated absences (vacation)	\$ 32,186	\$ -	\$ 7,076	\$ 25,110	\$ -
Net other postemployment benefits (OPEB) liability	58,235	-	12,332	45,903	-
	<u>\$ 90,421</u>	<u>\$ -</u>	<u>\$ 19,408</u>	<u>\$ 71,013</u>	<u>\$ -</u>

The compensated absences will be paid by the fund for which the employee worked. Payments for the net other postemployment benefits (OPEB) liability are made out of the General Fund.

Compensated absences

Compensated absences (unpaid employee vacation) for the District at June 30, 2019, amounted to \$25,110.

Net Other Postemployment Benefit (OPEB) Liability

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

<u>OPEB Plan</u>	<u>Net OPEB Liability</u>	<u>OPEB Expense</u>
District Plan	\$ 45,903	\$ (12,332)

The details of each plan are as follows:

District Plan

Plan Administration

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

SPENCER VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

Plan Membership

At June 30, 2019, the Plan membership consisted of the following:

Active employees	<u><u>1</u></u>
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Benefits Provided

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

The benefit payment requirements of the Plan members and the District are established and may be amended by the District and unrepresented groups. The benefit payment is based on projected pay-as-you-go financing requirements as determined annually through the agreements with the District and the unrepresented groups. For fiscal year 2018-2019, the District paid \$0 in benefits.

Total OPEB Liability of the District

The District's total OPEB liability of \$45,903, was measured as of June 30, 2019, and the total OPEB liability was determined by the alternative measurement method. The alternative measurement method is allowable for entities with fewer than 100 employees.

Alternative Measurement Method

The total OPEB liability in the June 30, 2019 alternative measurement method calculation was determined using the following assumptions, applied to all periods included in the measurement, unless otherwise specified:

Discount rate	2.00 percent
Healthcare cost trend rates	10.00 percent and decreasing towards 5.00 percent by 2024

The discount rate was based on the San Diego County Treasury rate of return.

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at June 30, 2018	\$ 58,235
Changes of assumptions or other inputs	(12,332)
Balance at June 30, 2019	<u><u>\$ 45,903</u></u>

SPENCER VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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

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

<u>Discount Rate</u>	<u>Total OPEB Liability</u>
1% decrease (1%)	\$ 47,067
Current discount rate (2%)	45,903
1% increase (3%)	44,784

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

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

<u>Healthcare Cost Trend Rates</u>	<u>Net OPEB Liability</u>
1% decrease (9.00% decreasing to 4.00%)	\$ 45,470
Current healthcare cost trend rate (10.00% decreasing to 5.00%)	45,903
1% increase (11.00% decreasing to 6.00%)	45,776

OPEB Expense

For the year ended June 30, 2018, the District recognized OPEB expense of \$(12,332).

SPENCER VALLEY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 9 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Special Reserve Fund for Capital Outlay Projects	Total
Nonspendable			
Revolving cash	\$ 10,000	\$ -	\$ 10,000
Total Nonspendable	<u>10,000</u>	<u>-</u>	<u>10,000</u>
Restricted			
Legally restricted programs	2,014,354	-	2,014,354
Capital projects	-	177	177
Total Restricted	<u>2,014,354</u>	<u>177</u>	<u>2,014,531</u>
Assigned			
Other assigned	2,641,157	39,436	2,680,593
Total Assigned	<u>2,641,157</u>	<u>39,436</u>	<u>2,680,593</u>
Unassigned			
Reserve for economic uncertainties	142,005	-	142,005
Remaining unassigned	6,105,017	-	6,105,017
Total Unassigned	<u>6,247,022</u>	<u>-</u>	<u>6,247,022</u>
Total	<u>\$ 10,912,533</u>	<u>\$ 39,613</u>	<u>\$ 10,952,146</u>

NOTE 10 - EMPLOYEE RETIREMENT SYSTEMS

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

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	Collective Net Pension Liability	Collective Deferred Outflows of Resources	Collective Deferred Inflows of Resources	Collective Pension Expense
CalSTRS	\$ 611,366	\$ 159,115	\$ 65,434	\$ 37,212
CalPERS	237,537	92,406	10,210	53,019
Total	<u>\$ 848,903</u>	<u>\$ 251,521</u>	<u>\$ 75,644</u>	<u>\$ 90,231</u>

SPENCER VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

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

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 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/member-publications>.

Benefits Provided

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

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

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

SPENCER VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

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 employee contribution rate	10.25%	10.205%
Required employer contribution rate	16.28%	16.28%
Required state contribution rate	9.828%	9.828%

Contributions

Required member, District and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2019, are presented above and the District's total contributions were \$54,729.

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:

Total net pension liability, including State share:

District's proportionate share of net pension liability	\$	611,366
State's proportionate share of the net pension liability associated with the District		350,036
Total	\$	<u>961,402</u>

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 proportionate share for the measurement period June 30, 2018 and June 30, 2017, respectively was 0.0007 percent and 0.0007 percent, resulting in no percentage change in the proportionate share.

SPENCER VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

For the year ended June 30, 2019, the District recognized pension expense of \$37,212. In addition, the District recognized pension expense and revenue of \$41,121 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	\$ 54,729	\$ -
Net change in proportionate share of net pension liability	7,513	33,013
Differences between projected and actual earnings on pension plan investments	-	23,540
Differences between expected and actual experience in the measurement of the total pension liability	1,896	8,881
Changes of assumptions	94,977	-
Total	<u>\$ 159,115</u>	<u>\$ 65,434</u>

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

The deferred 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 and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2020	\$ 5,112
2021	(3,710)
2022	(19,750)
2023	(5,192)
Total	<u>\$ (23,540)</u>

SPENCER VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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

Year Ended June 30,	Deferred Outflows of Resources
2020	\$ 12,091
2021	12,091
2022	12,090
2023	10,839
2024	15,730
Thereafter	(349)
Total	<u>\$ 62,492</u>

Actuarial Methods and Assumptions

Total pension liability for 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. 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
Measurement date	June 30, 2018
Experience study	July 1, 2010 through June 30, 2015
Actuarial cost method	Entry age normal
Discount rate	7.10%
Investment rate of return	7.10%
Consumer price inflation	2.75%
Wage growth	3.50%

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

SPENCER VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant (Pension Consulting Alliance-PCA) as an input to the process. The actuarial investment rate of return assumption was adopted by the board in February 2017 in conjunction with the most recent experience study. For each future valuation, CalSTRS consulting actuary (Milliman) reviews the return assumption for reasonableness based on the most current capital market assumptions. Best estimates of 20-year geometrically-linked real rates of return and the assumed asset allocation for each major asset class for the year ended June 30, 2018, are summarized in the following table:

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

Discount Rate

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

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

Discount Rate	Net Pension Liability
1% decrease (6.10%)	\$ 895,579
Current discount rate (7.10%)	611,366
1% increase (8.10%)	375,725

SPENCER VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

California Public Employees Retirement System (CalPERS)

Plan Description

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

A full description of the pension plans regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2017 annual actuarial valuation reports, Schools Pool Actuarial Valuation, and the Risk Pool Actuarial Valuation Report, Safety. These reports and CalPERS audited financial information are publicly available reports that can be found on the CalPERS website under Forms and Publications at: <https://www.calpers.ca.gov/page/forms-publications>.

Benefits Provided

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

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

	School Employer Pool (CalPERS)	
	On or before	On or after
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.00%	7.00%
Required employer contribution rate	18.062%	18.062%

SPENCER VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2019, are presented above and the total District contributions were \$33,645.

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 \$237,537. 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 proportionate share for the measurement period June 30, 2018 and June 30, 2017, respectively was 0.0009 percent and 0.0009 percent, resulting in no percentage change in the proportionate share.

For the year ended June 30, 2019, the District recognized pension expense of \$53,019. 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	\$ 33,645	\$ -
Net change in proportionate share of net pension liability	17,523	10,210
Differences between projected and actual earnings on pension plan investments	1,949	-
Differences between expected and actual experience in the measurement of the total pension liability	15,572	-
Changes of assumptions	23,717	-
Total	<u>\$ 92,406</u>	<u>\$ 10,210</u>

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

SPENCER VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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 and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2020	\$ 7,087
2021	1,694
2022	(5,430)
2023	(1,402)
Total	<u>\$ 1,949</u>

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, differences between expected and actual experience in the measurement of the total pension liability, and changes of assumptions will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is 4.0 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows of Resources
2020	\$ 21,488
2021	22,708
2022	2,406
Total	<u>\$ 46,602</u>

Actuarial Methods and Assumptions

Total pension liability for the SEP 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. 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
Measurement date	June 30, 2018
Experience study	July 1, 1997 through June 30, 2015
Actuarial cost method	Entry age normal
Discount rate	7.15%
Investment rate of return	7.15%
Consumer price inflation	2.50%
Wage growth	Varies by entry age and service

SPENCER VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

The mortality table used was developed based on CalPERS-specific data. The table includes 15 years of mortality improvements using Society of Actuaries 90 percent of scale MP-2016.

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

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global equity	50%	5.98%
Fixed income	28%	2.62%
Inflation assets	0%	1.81%
Private equity	8%	7.23%
Real assets	13%	4.93%
Liquidity	1%	-0.92%

Discount Rate

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

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

<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% decrease (6.15%)	\$ 345,843
Current discount rate (7.15%)	237,537
1% increase (8.15%)	147,682

SPENCER VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of \$32,306 (9.828 percent of annual payroll). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been included in the calculation of available reserves.

Senate Bill 90 (Chapter 33, Statutes of 2019), which was signed by the Governor on June 27, 2019, appropriated for an additional 2018–2019 contribution on behalf of school employers of \$2.246 billion for CalSTRS and \$904 million for CalPERS. A proportionate share of these contributions has been recorded in these financial statements. On behalf payments related to these additional contributions have been excluded from the calculation of available reserves and have not been included in the budgeted amounts reported in the *General Fund – Budgetary Comparison Schedule*.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

Grants

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2019.

Litigation

The District is not currently a party to any legal proceedings.

NOTE 12 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS, JOINT POWERS AUTHORITIES AND OTHER RELATED PARTY TRANSACTIONS

The District is a member of the San Diego County Schools Risk management Joint Powers Authority and the San Diego County Schools Fringe Benefits Consortium. The District pays an annual premium to the applicable entity for its health, workers' compensation, and property liability coverage. The relationships between the District and the JPA's are such that they are not component units of the District for financial reporting purposes.

SPENCER VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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

During the year ended June 30, 2019, the District made payments of \$11,792 and \$52,287 to the San Diego County Schools Risk management Joint Powers Authority and the San Diego County Schools Fringe Benefits Consortium, respectively.

NOTE 13 - RESTATEMENT OF PRIOR YEAR NET POSITION

The beginning net position of the government-wide financial statements was restated to reflect the understatement of the net effect of all changes in the deferred outflows, deferred inflows, and net pension liability. The beginning fund balance of the General Fund and the Special Reserve Fund for Capital Outlay Projects was restated to reflect the overstatement and understatement of the respective funds due to the General Fund absorbing the Special Reserve Fund for Capital Outlay Projects in the prior year. As a result, the effect on the current fiscal year is as follows:

Governmental Funds: General Fund

Fund Balance - Beginning	\$ 9,539,330
Overstatement of fund balance related to the Special Reserve Fund for Capital Outlay Projects	(20,158)
Fund Balance - Beginning, as Restated	<u>\$ 9,519,172</u>

Special Reserve Fund for Capital Outlay Projects

Fund Balance - Beginning	\$ -
Understatement of fund balance related to Special Reserve Fund for Capital Outlay Projects	20,158
Fund Balance - Beginning, as Restated	<u>\$ 20,158</u>

Government-Wide: Statement of Net Position

Net Position - Beginning	\$ 9,601,278
Understatement of the net effect of all changes in the deferred outflows, deferred inflows and net pension liability	352,287
Net Position - Beginning, as Restated	<u>\$ 9,953,565</u>



REQUIRED SUPPLEMENTARY INFORMATION

SPENCER VALLEY SCHOOL DISTRICT

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

	<u>Budgeted Amounts</u>		<u>Actual (GAAP Basis)</u>	<u>Variances - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		<u>Final to Actual</u>
REVENUES				
Local Control Funding Formula	\$ 1,697,195	\$ 1,697,956	\$ 1,714,493	\$ 16,537
Federal sources	406,408	364,599	364,701	102
Other State sources	175,984	190,548	186,879	(3,669)
Other local sources	1,485,809	1,487,309	1,790,876	303,567
Total Revenues ^{1,2}	<u>3,765,396</u>	<u>3,740,412</u>	<u>4,056,949</u>	<u>316,537</u>
EXPENDITURES				
Current				
Certificated salaries	401,039	369,013	354,927	14,086
Classified salaries	207,259	229,165	178,627	50,538
Employee benefits	213,487	219,281	228,797	(9,516)
Books and supplies	112,888	111,950	44,100	67,850
Services and operating expenditures	2,040,565	2,023,260	1,827,689	195,571
Capital outlay	15,000	15,000	15,498	(498)
Other outgo	50,000	50,000	-	50,000
Total Expenditures ^{1,2}	<u>3,040,238</u>	<u>3,017,669</u>	<u>2,649,638</u>	<u>368,031</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>725,158</u>	<u>722,743</u>	<u>1,407,311</u>	<u>684,568</u>
Other Financing Sources (Uses)				
Transfers out	(4,339,851)	(400,000)	(13,950)	386,050
NET CHANGE IN FUND BALANCES	<u>(3,614,693)</u>	<u>322,743</u>	<u>1,393,361</u>	<u>1,070,618</u>
Fund Balance - Beginning, As Restated	<u>9,519,172</u>	<u>9,519,172</u>	<u>9,519,172</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 5,904,479</u>	<u>\$ 9,841,915</u>	<u>\$ 10,912,533</u>	<u>\$ 1,070,618</u>

¹ Due to the consolidation of Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects for reporting purposes into the General Fund, additional revenues and expenditures pertaining to these other funds are included in the Actual (GAAP Basis) revenues and expenditures, however are not included in the original and final General Fund budgets. On behalf payments of \$23,500 relating to Senate Bill 90 are included in the actual revenues and expenditures but have not been included in the budgeted amounts.

SPENCER VALLEY SCHOOL DISTRICT

SCHEDULE OF CHANGES IN THE DISTRICT'S TOTAL OPEB LIABILITY AND RELATED RATIOS FOR THE YEAR ENDED JUNE 30, 2019

	2019	2018
Total OPEB Liability		
Changes of assumptions or other inputs	\$ (12,332)	\$ (8,841)
Total OPEB liability - beginning	<u>58,235</u>	<u>67,076</u>
Total OPEB liability - ending	<u>\$ 45,903</u>	<u>\$ 58,235</u>
Covered payroll	<u>N/A¹</u>	<u>N/A¹</u>
District's total OPEB liability as a percentage of covered payroll	<u>N/A¹</u>	<u>N/A¹</u>

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

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

See accompanying note to required supplementary information.

SPENCER VALLEY SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY FOR THE YEAR ENDED JUNE 30, 2019

	2019	(as restated) 2018
CalSTRS		
District's proportion of the net pension liability (asset)	0.0007%	0.0007%
District's proportionate share of the net pension liability (asset)	\$ 611,366	\$ 617,299
State's proportionate share of the net pension liability (asset) associated with the District	350,036	365,189
Total	<u>\$ 961,402</u>	<u>\$ 982,488</u>
District's covered payroll	<u>\$ 293,666</u>	<u>\$ 305,358</u>
District's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	<u>208.18%</u>	<u>202.16%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>71%</u>	<u>69%</u>
CalPERS		
District's proportion of the net pension liability (asset)	<u>0.0009%</u>	<u>0.0009%</u>
District's proportionate share of the net pension liability (asset)	<u>\$ 237,537</u>	<u>\$ 226,366</u>
District's covered payroll	<u>\$ 106,021</u>	<u>\$ 75,004</u>
District's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	<u>224.05%</u>	<u>301.81%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>71%</u>	<u>72%</u>

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

See accompanying note to required supplementary information.

<u>2017</u>	<u>2016</u>	<u>2015</u>
<u>0.0011%</u>	<u>0.0011%</u>	<u>0.0012%</u>
\$ 358,006	\$ 753,865	\$ 676,071
<u>321,244</u>	<u>261,047</u>	<u>250,205</u>
<u>\$ 679,250</u>	<u>\$ 1,014,912</u>	<u>\$ 926,276</u>
<u>\$ 281,612</u>	<u>\$ 293,412</u>	<u>\$ 315,818</u>
<u>127.13%</u>	<u>256.93%</u>	<u>214.07%</u>
<u>70%</u>	<u>74%</u>	<u>77%</u>
<u>0.0007%</u>	<u>0.0008%</u>	<u>0.0007%</u>
\$ 143,419	\$ 116,062	\$ 80,963
\$ 86,979	\$ 72,897	\$ 74,987
<u>164.89%</u>	<u>159.21%</u>	<u>107.97%</u>
<u>74%</u>	<u>79%</u>	<u>83%</u>

SPENCER VALLEY SCHOOL DISTRICT

SCHEDULE OF DISTRICT CONTRIBUTIONS FOR THE YEAR ENDED JUNE 30, 2019

	<u>2019</u>	<u>2018</u>
CalSTRS		
Contractually required contribution	\$ 21,139	\$ 42,376
Contributions in relation to the contractually required contribution	21,139	42,376
Contribution deficiency (excess)	<u>\$ 42,278</u>	<u>\$ 84,752</u>
 District's covered payroll	 <u>\$ 129,846</u>	 <u>\$ 293,666</u>
 Contributions as a percentage of covered payroll	 <u>16.28%</u>	 <u>14.43%</u>
 CalPERS		
Contractually required contribution	\$ 33,645	\$ 16,465
Contributions in relation to the contractually required contribution	33,645	16,465
Contribution deficiency (excess)	<u>\$ 67,290</u>	<u>\$ 32,930</u>
 District's covered payroll	 <u>\$ 186,296</u>	 <u>\$ 106,021</u>
 Contributions as a percentage of covered payroll	 <u>18.06%</u>	 <u>15.53%</u>

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

See accompanying note to required supplementary information.

2017	2016	2015
\$ 38,414	\$ 30,217	\$ 26,055
38,414	30,217	26,055
<u>\$ 76,828</u>	<u>\$ 60,434</u>	<u>\$ 52,110</u>
<u>\$ 305,358</u>	<u>\$ 281,612</u>	<u>\$ 293,412</u>
<u>12.58%</u>	<u>10.73%</u>	<u>8.88%</u>
\$ 10,418	\$ 10,307	\$ 8,580
10,418	10,307	8,580
<u>\$ 20,836</u>	<u>\$ 20,614</u>	<u>\$ 17,160</u>
<u>\$ 75,004</u>	<u>\$ 86,979</u>	<u>\$ 72,897</u>
<u>13.89%</u>	<u>11.85%</u>	<u>11.77%</u>

SPENCER VALLEY SCHOOL DISTRICT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2019

NOTE 1 - PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

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

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

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

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

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

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

Changes of Assumptions – The date of retirement for the active employee part of the plan changed from July 1, 2019 to July 1, 2020.

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

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

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

Changes of Assumptions – There were no changes in economic assumptions for either the CalSTRS or CalPERS plans from the previous valuations.

Schedule of District Contributions

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



SUPPLEMENTARY INFORMATION

SPENCER VALLEY SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2019

ORGANIZATION

The District was established in 1876 and consists of an area comprising approximately 9.9 square miles. The District operates one elementary school. There were no boundary changes during the year.

GOVERNING BOARD

MEMBER	OFFICE	TERM EXPIRES
Lisa Boyer	President	December 2022
Marie Beatty	Member	December 2022
Carol Muehling Frausto	Member	December 2020

ADMINISTRATION

NAME	TITLE
Julie Z. Weaver	Superintendent
Kathleen McKenzie	Chief Business Official

See accompanying note to supplementary information.

SPENCER VALLEY SCHOOL DISTRICT

SCHEDULE OF AVERAGE DAILY ATTENDANCE FOR THE YEAR ENDED JUNE 30, 2019

	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Transitional kindergarten through third	24.91	25.49
Fourth through sixth	12.96	12.88
Seventh and eighth	0.92	0.93
Total Regular ADA	<u>38.79</u>	<u>39.30</u>

See accompanying note to supplementary information.

SPENCER VALLEY SCHOOL DISTRICT

**SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2019**

Grade Level	1986-87 Minutes Requirement	2018-19 Actual Minutes	Number of Days		Status
			Traditional Calendar	Multitrack Calendar	
Kindergarten	36,000	58,490	180	N/A	Complied
Grades 1 - 3	50,400				
Grade 1		55,790	180	N/A	Complied
Grade 2		55,790	180	N/A	Complied
Grade 3		55,790	180	N/A	Complied
Grades 4 - 6	54,000				
Grade 4		55,790	180	N/A	Complied
Grade 5		55,790	180	N/A	Complied
Grade 6		55,790	180	N/A	Complied
Grades 7 - 8	54,000				
Grade 7		55,790	180	N/A	Complied
Grade 8		55,790	180	N/A	Complied

See accompanying note to supplementary information.

SPENCER VALLEY SCHOOL DISTRICT

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2019.

See accompanying note to supplementary information.

SPENCER VALLEY SCHOOL DISTRICT

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2019**

	(Budget) 2020 ¹	2019	(as Restated) 2018	2017
GENERAL FUND ³				
Revenues	\$ 3,841,685	\$ 4,056,949	\$ 3,886,621	\$ 4,124,526
Expenditures	3,096,793	2,649,638	3,530,922	3,204,392
Other uses and transfers out	4,500,000	13,950	-	-
Total Expenditures and Other Uses	7,596,793	2,663,588	3,530,922	3,204,392
INCREASE (DECREASE) IN FUND BALANCE	\$ (3,755,108)	\$ 1,393,361	\$ 355,699	\$ 920,134
ENDING FUND BALANCE	\$ 7,157,425	\$ 10,912,533	\$ 9,519,172	\$ 9,163,473
AVAILABLE RESERVES ²	\$ 379,840	\$ 6,247,022	\$ 5,401,031	\$ 2,847,577
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO ⁴	5.00%	234.53%	152.96%	88.86%
LONG-TERM OBLIGATIONS	N/A	\$ 71,013	\$ 90,421	\$ 81,041
K-12 AVERAGE DAILY ATTENDANCE AT P-2	39	39	36	31

The General Fund balance has increased by \$1,749,060 over the past two years. The fiscal year 2019-2020 budget projects a decrease of \$3,755,108 (34.41 percent). For a district this size, the State recommends available reserves of at least greater of 5 percent of total General Fund expenditures, transfers out, and other uses (total outgo) or \$55,000.

The District has incurred operating surpluses in each of the past three years but anticipates incurring an operating deficit during the 2019-2020 fiscal year. Total long-term obligations have decreased by \$10,028 over the past two years.

Average daily attendance has increased by 8 over the past two years. No change in ADA is anticipated during fiscal year 2019-2020.

¹ Budget 2020 is included for analytical purposes only and has not been subjected to audit.

² Available reserves consist of all unassigned fund balances contained with the General Fund and the Special Reserve Fund for Other Than Capital Outlay Projects.

³ Includes activity related to Fund 17.

⁴ On behalf payments of \$23,500 relating to Senate Bill 90 have been excluded from the calculation of available reserves for the fiscal year ending June 30, 2019.

SPENCER VALLEY SCHOOL DISTRICT

**SCHEDULE OF CHARTER SCHOOLS
FOR THE YEAR ENDED JUNE 30, 2019**

<u>Name of Charter School</u>	<u>Included in Audit Report</u>
California Virtual Academy @ San Diego (Charter No. 0493)	No
Insight @ San Diego (Charter No. 1371)	No

SPENCER VALLEY SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2019

NOTE 1 - PURPOSE OF SCHEDULES

Local Education Agency Organization Structure

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

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

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

Districts must maintain their instructional minutes at the 1986-87 requirements, as required by *Education Code* Section 46201.

Reconciliation of Annual Financial and Budget Report With Audited Financial Statements

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

Schedule of Financial Trends and Analysis

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

Schedule of Charter Schools

This schedule lists all Charter Schools chartered by the District and displays information for each Charter School on whether or not the Charter School is included in the School District audit.



INDEPENDENT AUDITOR'S REPORTS



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

Governing Board
Spencer Valley School District
Santa Ysabel, 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 and each major fund information of Spencer Valley School District (the District) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Spencer Valley School District's basic financial statements, and have issued our report thereon dated December 13, 2019.

Emphasis of Matter – Correction of an Error

As discussed in Note 13 to the financial statements, in 2019, the beginning net position of the government-wide financial statements was restated to reflect the understatement of the net effect of all changes in the deferred outflows, deferred inflows, and net pension liability. The beginning fund balance of the General Fund and the Special Reserve Fund for Capital Outlay Projects was restated to reflect the overstatement and understatement of the respective funds due to the General Fund absorbing the Special Reserve Fund for Capital Outlay Projects in the prior year. Our opinion is not modified with respect to this matter.

Internal Control over Financial Reporting

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

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

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. We considered the deficiencies described in the accompanying schedule of findings and questioned costs as items 2019-001 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Spencer Valley School District's Response to Finding

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.



Rancho Cucamonga, California
December 13, 2019



INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
Spencer Valley School District
Santa Ysabel, California

Report on State Compliance

We have audited Spencer Valley School District's (the District) compliance with the types of compliance requirements as identified in the *2018-2019 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 Spencer Valley School District's State government programs as noted below for the year ended June 30, 2019.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the Spencer Valley School District's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2018-2019 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about Spencer Valley School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of Spencer Valley School District's compliance with those requirements.

Unmodified Opinion

In our opinion, Spencer Valley School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2019.

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

	Procedures Performed
LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	No, See Below
Continuation Education	No, See Below
Instructional Time	Yes
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	No, See Below
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	No, See Below
Middle or Early College High Schools	No, See Below
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	No, See Below
Apprenticeship: Related and Supplemental Instruction	No, See Below
Comprehensive School Safety Plan	Yes
District of Choice	No, See Below
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
California Clean Energy Jobs Act	No, See Below
After/Before School Education and Safety Program:	
General Requirements	No, See Below
After School	No, See Below
Before School	No, See Below
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Independent Study - Course Based	No, See Below
CHARTER SCHOOLS	
Attendance	No, See Below
Mode of Instruction	No, See Below
Non Classroom-Based Instruction/Independent Study for Charter Schools	No, See Below
Determination of Funding for Non Classroom-Based Instruction	No, See Below
Annual Instruction Minutes Classroom-Based	No, See Below
Charter School Facility Grant Program	No, See Below

The District does not offer an Independent Study Program; therefore, we did not perform procedures related to the Independent Study Program.

The District does not offer a Continuation Education Program; therefore, we did not perform procedures related to the Continuation Education Program.

The District does not offer an Early Retirement Incentive Program during the current year; therefore, we did not perform procedures related to the Early Retirement Program.

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

The District does not operate an Middle or Early College High School Program; therefore, we did not perform procedures related to the Middle or Early College High School Program.

The District did not have any transportation expenditures in the 2012-13 fiscal year; therefore, we did not perform any procedures related to Transportation Maintenance of Effort.

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

The District does not offer a District of Choice Program; therefore, we did not perform any procedures for the District of Choice Program.

The District did not have California Clean Energy Jobs Act expenditures; therefore, we did not perform any procedures related to California Clean Energy Jobs Act Program.

The District does not offer an After/Before School Education and Safety Program; therefore, we did not perform any procedures related to the After/Before School Education and Safety Program.

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

The Charter Schools are independent of the District; therefore, we did not perform any procedures related to charter schools.

Ede Sallie LLP

Rancho Cucamonga, California
December 13, 2019



SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SPENCER VALLEY SCHOOL DISTRICT

**SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2019**

FINANCIAL STATEMENTS

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

STATE AWARDS

Type of auditor's report issued on compliance for programs:	<u>Unmodified</u>
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SPENCER VALLEY SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2019

The following finding represents material weaknesses related to the financial statements that are required to be reported in accordance with Government Auditing Standards. The finding has been coded as follows:

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
30000	Internal Control

2019-001 30000 – Financial Statement Preparation and Audit Adjustments

Criteria

Management should have an internal control system in place designed to provide for the preparation of the financial statements being audited. This includes proper reporting on a modified accrual basis of accounting and the ability to convert the trial balance from modified accrual to full accrual under the requirements of the Governmental Accounting Standards Board (GASB). It also includes the ability to prepare any required disclosures.

Condition

Communicating Internal Control Related Matters Identified in an Audit defines a material weakness and significant deficiency. According to these definitions, an internal control system design must include elements to accurately prepare financial statements without adjustments by the auditor. As auditors, we were requested to assist management in the preparation of the financial statements from the trial balances. This preparation included certain accrual closing entries, government-wide reporting conversion entries, and footnotes.

Questioned Costs

There were no direct questioned costs associated with the condition identified.

Context

The beginning net position of the government-wide financial statements was restated to reflect the understatement of the net effect of all changes in the deferred outflows, deferred inflows, and net pension liability. The beginning fund balance of the General Fund and the Special Reserve Fund for Capital Outlay Projects was restated to reflect the overstatement and understatement of the respective funds due to the General Fund absorbing the Special Reserve Fund for Capital Outlay Projects in the prior year.

Effect

The auditor proposed certain accrual closing entries, government-wide reporting conversion entries and prepared the footnotes and reported financial data in accordance with generally accepted accounting principles to address the restatements.

SPENCER VALLEY SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2019

Cause

The restatements materialized as a result of miscommunication in the prior period related to the rollup of the impacted funds as well as the annual changes in the deferred outflows, deferred inflows, and net pension liability.

Recommendation

Management and those charged with governance should continue to develop an appropriate system of controls for monitoring of long-term obligations related to pensions and the related disclosures and consider whether to accept the degree of risk associated with this condition because of cost or other considerations.

Corrective Action Plan

We understand the importance of and our responsibility in the preparation of the financial statements and maintaining proper internal controls. We strongly feel that the appropriate controls are in place to prevent and detect potential misstatements and allow for accurate financial reporting. Management believes that there were specific circumstances encountered previously which resulted in the prior period restatements.

SPENCER VALLEY SCHOOL DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019**

None reported.

SPENCER VALLEY SCHOOL DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019**

There were no audit findings reported in the prior year's Schedule of Findings and Questioned Costs.